Jewel Companies, Inc. Annual Report 1981

[redacted]

**The Cover**

1982 is the 50th Anniversary of Jewel Food Stores. Jim Young is one of the professional drivers whose skill and dedication make possible the weekly movement of millions of tons of product from warehouses to stores. Along with 24,000 fellow workers, Jim Young gives truth to his company's 50th Anniversary slogan: "Jewel—Friend of the Family For Fifty Years."

**Annual Meeting**

Tuesday, June 8, 1982
2:00 p.m. Central Daylight Saving Time at
Harris Trust & Savings Bank
111 West Monroe Street
Chicago, Illinois

**Corporate Office**

O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

**Stock Listing**

Common Stock:
New York Stock Exchange
Midwest Stock Exchange

Series A $2.31 Cumulative Convertible Preferred Stock:
New York Stock Exchange

**Shareholders of Record**

Common Stock:
12,300

Series A $2.31 Cumulative Convertible Preferred Stock:
1,906

**Transfer Agent and Registrar**

Manufacturers Hanover Trust Company
Four New York Plaza
New York, New York 10015

**SEC Form 10-K**

Copies of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge upon request to:

Robert F. Berrey,
Secretary
Jewel Companies, Inc.
5725 N. East River Road
Chicago, Illinois 60631

**Contents**

## Financial Highlights

| (In thousands except per share data) | 1981 | 1980 | Percent Change |
|---|---|---|---|
| Sales: | | | |
| Supermarkets | $3,146,178 | $3,021,989 | 4.1% |
| Drug stores | 1,455,147 | 859,903 | 69.2 |
| Other operations | 506,289 | 386,030 | 31.2 |
| **Total Sales** | **$5,107,614** | **$4,267,922** | **19.7%** |
| U.S Operating Earnings: | | | |
| Supermarkets | $ 61,912 | $ 54,692 | 13.2% |
| Drug stores | 58,999 | 31,275 | 88.6 |
| Other operations | 5,337 | 4,455 | 19.8 |
| Unallocated—net | (6,401) | (390) | — |
| **Total U.S. Operating Earnings** | **$119,847** | **$ 90,032** | **33.1%** |
| Earnings of U.S. Companies | $ 52,066 | $ 39,448 | 32 0% |
| Gain on Sale of Aurrera Stock | 17,650[1] | — | — |
| U.S. Earnings From Continuing Operations | 69,716 | 39,448 | 76.7 |
| Equity in Net Earnings of Aurrera, S A. | 31,954 | 24,416 | 30 9 |
| Earnings From Continuing Operations | 101,670 | 63,864 | 59.2 |
| Loss From Discontinued Operation | — | (8,654) | — |
| **Net Earnings** | **$101,670** | **$ 55,210** | **84.2%** |
| Primary Earnings Per Average Common Share Outstanding: | | | |
| Earnings from continuing operations | $ 8 03[1] | $ 5 46 | 47 1% |
| Loss from discontinued operation | — | (.76) | — |
| **Primary Earnings Per Share** | **$ 8.03** | **$ 4.70** | **70.9%** |
| Fully Diluted Earnings Per Share: | | | |
| Earnings from continuing operations | $ 7.03[1] | $ 5 25 | 33.9% |
| Loss from discontinued operation | — | (71) | — |
| **Fully Diluted Earnings Per Share** | **$ 7.03** | **$ 4.54** | **54.8%** |
| U.S. Earnings From Continuing Operations as a Percent of Sales[2] | 1.02% | .92% | |
| Earnings From Continuing Operations as a Percent of Shareholders' Average Equity[2] | 16.1% | 15.2% | |
| Dividends Declared Per Common Share | $ 2.24 | $ 1.92 | |
| Average Common Shares Outstanding | 11,554 | 11,293 | |

[1]The after-tax gain on the sale of Aurrera stock is $1 53 per Jewel common share on a primary basis and $1.22 per share on a fully diluted basis
[2]Excludes gain on sale of Aurrera stock in 1981

In 1980, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for approximately 87% of its inventories. In certain explanatory sections of this Report first-in, first-out (FIFO) data is presented for comparison purposes.

## To Jewel Shareholders

Lawrence Howe    Weston R. Christopherson    Richard G. Cline

Jewel Companies, Inc. achieved a 19.7% increase in sales in 1981 and a 31.6% increase in consolidated net earnings from continuing operations (*not including a gain of $17,650,000 on the sale of some of its stock in Aurrera, S.A.*). Sales and earnings were at record levels despite the especially troubled U.S. economy in the latter months of the year. Eight of our companies achieved operating earnings results better than the prior year, as did Aurrera, S.A.

1981 was a landmark year in that the Company's original business which dates back to 1899, the Jewel Home Shopping Service, was discontinued as a Jewel operation and successfully launched by its employees as a cooperative corporation. We are proud of the people whose courage and imagination created this new organization and pleased that they had a good sales and earnings year.

In 1981 Sav-On-Drugs, Inc. became a full-fledged Jewel company, with its business practices well aligned with those of our Company, its strategies worked out and its growth plan integrated with Jewel's overall investment plans. We regard the acquisition of Sav-On as of singular strategic importance and are even more favorably impressed with its strengths and its potential than we were a year ago.

### 1981 Consolidated Results

Excluding the Aurrera stock sale gain, net earnings of $84,020,000 ($6.50 per share) compare favorably with 1980 earnings from continuing operations of $63,864,000 ($5.46 per share), an increase of 31.6%. On the same basis, fully diluted earnings per common share increased from $5.25 to $5.81. Against a 1981 return on equity target of 15%, which had been set when the Company was still on the FIFO accounting basis, we are pleased to have achieved a 16.1% return on shareholders' equity on the basis of LIFO earnings.

As previously reported, the Company reduced its ownership of Aurrera, S.A., from 41.7% to 36.1%. Over one-third of the ownership of this important Mexican retailer is now in public hands.

### United States Operations

Sales in the U.S. from continuing operations were $5,107,614,000, an increase of 19.7% over 1980. Excluding Sav-On, the sales increase from continuing operations was 8.2%. U.S. net earnings from continuing operations, not counting the $17,650,000 gain on the sale of Aurrera stock, amounted to $52,066,000, 32% ahead of 1980. Without Sav-On, net earnings from U.S. operations increased by 27.1%.

All results are on the LIFO basis of accounting, with a LIFO charge against net earnings of $9,609,000 in 1981 versus $10,792,000 in 1980.

### The Advantage of Food Plus Drug

While Jewel is organized on the basis of individual companies—i.e., four supermarket companies, two drug store companies and four companies engaged in other lines of selling and service—our domestic sales and earnings come increasingly from our combined food/drug locations. We now operate 85 food/drug stores with common check-out configuration and another 94 as side-by-side units. Because of the growing importance of Jewel's combined food/drug stores, it seems appropriate to emphasize their sales and earnings which are otherwise reported within the supermarket and drug store segments.

- Total sales of our four supermarket companies in 1981 amounted to $3,146,178,000. 26% of these sales dollars came from the grocery segment of our 85 combination food/drug stores and another 28% from our 94 food stores located side-by-side with Osco drug stores.

- Approximately 59% of the operating earnings of the supermarket companies relate to the 179 food and drug locations.

- Total sales of Osco Drug in 1981 amounted to $780,026,000 of which 32% came from the drug store segment of the combination stores and another 37% from drug stores located alongside one of our supermarkets.

- Approximately 71% of Osco's operating earnings relate to its 179 locations which are with our supermarket companies.

The combined food/drug store is preferred by the customer and is clearly more productive for the Company than are stand-alone or "solo" locations. Sales velocity per square foot is better in this store type than in the traditional solo units. Net margins are substantially better. It is for these reasons that 42% of Jewel's capital expenditures in 1982-84 are earmarked for combination stores.

## The Supermarket Companies: Buttrey, Eisner, Jewel and Star

Total 1981 sales of the four companies were 4.1% greater than in 1980, 5.9% excluding from comparative numbers the Jewel stores in Milwaukee which were sold late in 1980. Operating earnings increased 13.2%.

1981 provided a difficult sales climate. The Northwest lost much of its buoyancy because of the severely depressed lumber industry. In the industrial-agricultural states in the Midwest, weaknesses in the automobile and farm equipment industries caused high unemployment levels and a general pressure on the consumer to be extremely conservative. In New England a volatile grocery pricing environment aggravated the problems otherwise being felt. Sales of our supermarket companies were also affected by a lower inflation factor than in the prior year.

It is especially pleasing to note that operating earnings of Jewel Food Stores, our largest company, were well ahead of plan and considerably exceeded the prior year. Eisner also exceeded both plan and the prior year. Buttrey's operating earnings were slightly ahead of 1980 while Star was well below.

We invested $67.8 million in Eisner, Buttrey, Jewel and Star in 1981—36% for new locations and 21% for enlargements and remodels, almost all of which were in combination with drug, 12% for improved and enlarged distribution facilities and 23% for new equipment in existing stores, including equipment for scanning.

The supermarket companies are strong resource bases for the accelerated development of food/drug common locations.

## The Drug Store Companies: Osco and Sav-On

Dating back to the 1961 acquisition of 30 Osco drug stores, Jewel has invested steadily and significantly in drug retailing both through promotional drug stores and food/drug combination stores. The importance of this investment can be measured in terms of 1981 results:

- The 1981 sales of Osco and Sav-On total $1,455,147,000 while their combined operating earnings of $58,999,000 (4.1% of sales) amount to 49.2% of Jewel's total U.S. operating earnings.
- At year end we had drug operations in 449 locations—255 solo drug stores, 179 in combination with food or sharing locations with our supermarket companies and 15 drug/home improvement combination stores.
- We invested $40.6 million in Osco and Sav-On in 1981—42% for stand-alone drug stores, 36% for the drug store component of combination stores and the balance in equipment replacement.

In 1981 Osco had a sales gain of 13.2% and operating earnings well ahead of plan. Favorable sales were leveraged with strict attention to expense management to produce good gains in Osco's financial ratios. Osco people opened 18 new stores in 1981, all but seven in combination with Buttrey, Eisner or Jewel.

For Sav-On, 1981 was a year of successful transition into Jewel. Their sales gain of 14.4% was as planned, with operating earnings also on plan. We see strong potential for improvement in earnings beyond that coming from sales and new store growth. Nine new Sav-On stores were opened in 1981.

## Convenience Stores: White Hen Pantry

White Hen Pantry increased both sales and earnings consistent with expectations. Twenty new stores opened during the year and two older stores were closed, leaving 262 units in operation at year-end. By any standard of performance, White Hen Pantry is one of the leaders in the convenience store business and an excellent contributor to Jewel's performance goals.

## Food Away From Home: Brigham's and Mass Feeding

Brigham's experienced an operating loss for the year after including expenses associated with the closing of thirteen obsolete units. In March, 1982, we announced an agreement in principle to sell Brigham's to a private group in Boston who will continue to operate the business in its present mode. Jewel will incur a modest charge in the first quarter of 1982 when this transaction is completed.

Mass Feeding Corporation experienced a record year of sales and earnings. Offering quality food service to elementary schools at modest prices, MFC's program has become an increasingly attractive value for school systems facing substantial reductions in Federal funding.

## Manufacturing: Park Corporation

Despite a slight reduction in sales, Park Corporation modestly exceeded prior year's earnings. A high-

quality processor of private label foods and detergents, Park serves a growing segment of the institutional food service market in addition to Jewel's food and drug stores.

## Discount Grocery Stores: Jewel T

We are disappointed with the 1981 results of our 161 Jewel T stores but not with the people of Jewel T. In retrospect, our expectations for a new and complex business, for which we planned and executed rapid growth, were overly optimistic. At any rate, a sales gain of 40.3% and a modest reduction of losses are both considerably less than we had planned for the year. 1981 sales amounted to $305,174,000 and net after-tax losses were $2,485,000 compared to 1980's deficit of $3,125,000.

Discount grocery retailing as conceived by Jewel T is a specialty field addressed to a consumer niche which is perhaps 15% of total U.S. retail food sales. It is a niche neither well defined nor well served. In 1977 we decided to commit some of our resources to what we assessed to be a distinct opportunity. By year-end 1981 we had invested $33 million (including working capital) in this new retailing concept. The 1982 program for Jewel T will concentrate on continued development of existing markets including investment in scanning and other systems improvements.

## Aurrera S A., Mexico

As described in a separate section of this report, Aurrera had another record year. Because Jewel reduced its equity interest and because of the impact of devaluation of the peso, we cannot expect 1982 results from Aurrera to contribute as strongly to Jewel's earnings as in 1981. Beyond that, however, we think Aurrera's record speaks for itself.

## Jewel People

A special section of this year's Report again details the Company's strategies for growth, its investment plans and the changing characteristics of our Company. To indicate Jewel's fundamental strengths and its ability to execute aggressive but financially conservative plans we have included a section which describes our basic approach to management. And because it all depends on people you will find individual photos representative of the people who are Jewel and on whom the future rests.

A number of senior management changes during the year are described on page 36. There were also a number of retirements including Jo Armstrong who retired as president of Star Markets after 35 years of Jewel service and Ira D. Brown who retired as Chairman of Sav-On-Drugs after 36 years of Sav-On service.

## Outlook

The current recession and high interest rates mark 1982 as another challenging year but the Jewel companies have again set budgets ahead of 1981 levels. We expect to continue making the kind of progress that should distinguish Jewel as an attractive investment opportunity.

On behalf of the Board of Directors we thank the Jewel people whose 1981 accomplishments contributed to a year of substantial progress for our Company. We remain grateful to the millions of people who buy from our various businesses and to our suppliers of products and services. We convey to our partners in Mexico our appreciation for all that they contribute to our Company and our admiration and respect for the quality of retailing they bring to serving the needs of a dynamic country. Finally, we wish to express appreciation to all Jewel shareholders for their investment in the Company.

Weston R. Christopherson
Chairman of the Board and
Chief Executive Officer

Richard G. Cline
President and
Chief Operating Officer

Lawrence Howe
Vice Chairman

## The Jewel Approach to Management

The basic elements which comprise Jewel's management style are fundamental to the continued achievement of our goals for the Company and for Jewel people. *Because each is a crucial element* working in harmony with the others, there is no order of importance.

### One—People

57,800 people work throughout the Jewel companies—about evenly divided between men and women. 58% are part-timers, ranging from young men and women in high school to older folks who work to supplement family income or to round out their activities. Jewel people are MBAs and lawyers and pharmacists and accountants and all sorts of college graduates—and they are high school graduates and school dropouts and some come from mighty disadvantaged circumstances.

Jewel people are a highly diverse lot—but most are comfortable with Jewel's values, inspired by its goals and plans, at ease with each other, and take pride in work. Jewel people are as varied as are the demographics of the places in which we do business. Almost without exception, they are honest, friendly, willing to share, willing to work. These are the demanding characteristics by which Jewel people are judged and by which success is attained.

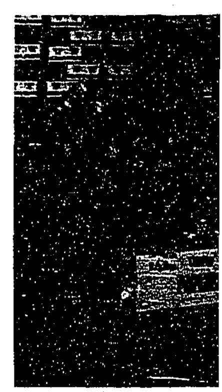
The underlying commitment of each Jewel person must be to serve customers. The finest sausage maker, the real estate expert, the advertising professional, the buyer, the skilled truck driver and all the *others are encouraged to realize that they are work*ing for customers, just as importantly as are the people in the stores.

Every member of management is charged with primary responsibility to maintain the uniqueness of Jewel's human strengths. Each is a recruiter of talent, each is a mentor for new talent, and each is a teacher.

Our basic philosophy on the human side of the business is one of sharing. We share responsibility and authority—share the work—share the rewards. Jewel is one of the few large companies, for example, in which retirement benefits are primarily related to the Company's profits and to individual contributions, as opposed to pension plans which are not particularly related to the fortunes of an enterprise.

### Two—Organization

Jewel's organizational structure is set in ways which optimize the strengths both of decentralization and of centralization. We have highly decentralized operating companies and we have a strong corporate management team. Productivity is enhanced by addressing some functions from a centralized

perspective, but doing so only when the advantages are compelling.

Most of the Jewel companies are dependent on each other for success. 66% of Osco's 1982-84 capital plan, for example, is related to food/drug locations with our supermarket companies. We expect Jewel people to manage these relationships with attitudes and behavior which are interdependent. And they usually do.

Jewel people trust, understand and feel comfortable with our organizational form. The keys to making it work are careful planning and an understanding of the need to work together with flexibility. Rigid adherence to organizational lines must not stand in the way of fulfillment of our obligations to customers and stockholders.

### Three—Communications

Critical information moves naturally throughout the Company in both structured and, more typically, informal fashion. The informal techniques are inspired by the acknowledgement that key executives are not to surprise one another by having failed to communicate. The more formal communication devices are not especially unique but the following are illustrative:

- The planning process is a primary channel through which shared expectations and crystallized strategies come before unilateral action or commitment. Thus, no surprises.

- To avoid the wheel being reinvented in different parts of the Company, there are Idea Exchange Meetings. People within a given functional area, from throughout Jewel, come together to share experiences, tell what's new, and simply learn from each other. The financial controllers do this—as do construction professionals, merchandisers and buyers, operators, real estate executives, personnel managers and others.

- The Operating Committee, consisting of the presidents of the food and drug companies, meets four or five times a year to discuss operating issues and other topics of mutual interest and to ensure that their organizations are working cooperatively to optimize our many food/drug ventures. This, in turn, signals the expectation that people all along the line will be good communicators.

- The Management Development Council meets monthly. Its members are some of the most promising men and women in middle management jobs from across the Company, rotating through in staggered 18-month terms. A typical Council meeting will have the president of a Jewel company, a key professional, or a Jewel director talk to the group. In 18 months these people learn a lot about Jewel and

through coming to know each other they build bridges that are invaluable.

People at all levels are best able and motivated to act in the interests of customers and the business when they have a clear understanding of the Company's goals and its values along with information from their co-workers.

## Four—Planning

A three-year business planning process allocates the Company's financial and human resources against clearly defined strategies to reach specific goals. The outline of our current plan is covered elsewhere in this Report. A revised plan is developed annually through a process which starts with a careful assessment of the strengths, weaknesses and opportunities of each of our operations and of corporate functions. Using the best outside resources available a similar assessment is made of external factors which can be expected to impact our opportunities and influence our tactics. As the planning process proceeds, dialog between each company president and senior corporate officers identifies issues, helps set priorities and eventually leads to the agreed strategies, both for investment and for disinvestment.

We engage in continual study and appraisal of enterprises which might be merger or acquisition candidates.

Tracking in tandem with the financial and strategic planning process, senior corporate officers review human resources in each of the operating companies to assess replacement candidates for key management jobs, define gaps where added human resource strengths may be needed, and identify specific individuals whose careers need attention.

Several aspects of Jewel's approach to planning merit added comment:

- The planning process provides a clear and universal understanding of strategies, of acceptable performance targets, and of the overlapping needs of the companies. With this, the companies have a sure sense of support and can go about their business without day-to-day operating influence from corporate management.
- Jewel's planning process is neither "top down" nor "bottom up." In a diversified business, there are different perspectives about choices and priorities for the use of corporate resources, and we try to balance those perspectives through dialog.
- The planning process is continuous.
- While consistency in corporate purpose and clear charters for operating companies are important, we





guard against rigid adherence to a plan or a planning process. Planning brings focus to the business based on our best judgment and knowledge at any point in time, but often there will be challenges and opportunities not foreseen. We endeavor to be alert and to respond.

### Five—Leadership Style

A fifth point has to do with how we behave as managers of the Company. As already indicated, sharing is basic to our approach to leadership. The style is participative and the climate is informal.

We are results oriented. Poor performance is not excusable, though sometimes even exemplary managerial skill will not necessarily produce targeted results. We allow for that. But we expect of ourselves that performance goals will almost always be achieved.

This expectant attitude places a premium on resourcefulness, flexibility, initiative and commitment, but it does not permit a heartless leadership style. In achieving performance goals, effective Jewel managers are less concerned about power and status and who gets the credit than they are about providing resources, understanding and support to the people who must get the job done. Together, Jewel people decide what are reasonable targets—together we work to attain them—and together we expect to do so.

While Jewel managers are comfortable with numbers and informational reports, they spend time with people at all levels of the business so that they understand problems and opportunities from the viewpoints of customers and those who serve them, thus being able to respond to conditions before they show up in numbers

### Six—Jewel Values

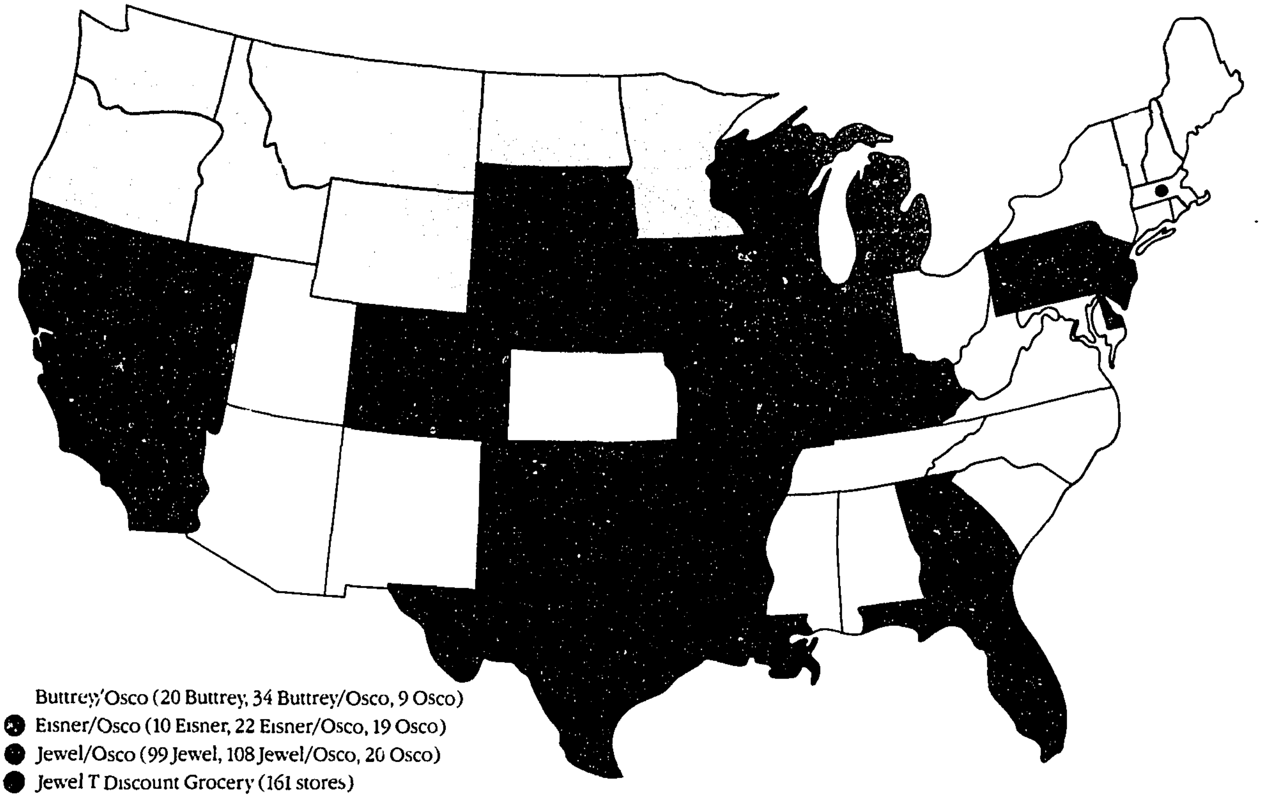
Finally, we are blessed with a set of philosophic beliefs crystallized over many decades. Many of these rational values were first put in writing in 1952 by Franklin J. Lunding, then Jewel's Chairman, in a book titled *The Sharing of a Business* In 1972 Mr. Lunding, along with George L. Clements and Donald S. Perkins, expanded the *Sharing* philosophy by producing the *Jewel Concepts* as our statement of management beliefs.

All of us who work for Jewel are motivated and guided by those values which we share as human beings and to which we come, however gradually through the learning process, to dedicate ourselves as individuals and as a group. These beliefs and principles go beyond immediate profit objectives to provide an enduring framework which gives meaning to our work, to challenge us to fulfill our broader responsibilities, to encourage business vision, and to provide cohesive principles for business conduct in all parts of Jewel





## Food and Drug Store Locations



Buttrey/Osco (20 Buttrey, 34 Buttrey/Osco, 9 Osco)
- Eisner/Osco (10 Eisner, 22 Eisner/Osco, 19 Osco)
- Jewel/Osco (99 Jewel, 108 Jewel/Osco, 20 Osco)
- Jewel T Discount Grocery (161 stores)
- Osco (43 stores)
- Sav-On-Drug Stores (164 stores)

Star/Osco (37 Star, 15 Star/Osco, 15 Osco)
- White Hen Pantry (262 stores)

| Company | | Number of Stores: Beginning of Year | Opened | Closed | End of Year | Total Sq Ft (in thousands) | Affiliated Stores |
|---|---|---|---|---|---|---|---|
| Buttrey Food Stores | 1981 | 53 | 2 | 1 | 54 | 1,388 | |
| | 1982 Plan | 54 | 5 | 0 | 59 | 1,518 | |
| Eisner Food & Agency Stores | 1981 | 32 | 0 | 0 | 32 | 802 | 62 |
| | 1982 Plan | 32 | 4 | 2 | 34 | 894 | 64 |
| Jewel Food Stores | 1981 | 207 | 8 | 8 | 207 | 6,607 | |
| | 1982 Plan | 207 | 8 | 6 | 209 | 6,766 | |
| Jewel T Discount Grocery | 1981 | 138 | 29 | 6 | 161 | 1,620 | |
| | 1982 Plan | 161 | 12 | 11 | 162 | 1,630 | |
| Osco Drug | 1981 | 280 | 18 | 3 | 295 | 5,302 | |
| | 1982 Plan | 285[1] | 36 | 6 | 315 | 5,640 | |
| Sav-On-Drugs | 1981 | 146 | 9 | 1 | 154 | 4,166 | |
| | 1982 Plan | 164[1] | 16 | 2 | 178 | 4,877 | |
| Star Market Company | 1981 | 53 | 1 | 2 | 52 | 1,623 | 13 |
| | 1982 Plan | 52 | 1 | 0 | 53 | 1,655 | 29 |
| White Hen Pantry | 1981 | 244 | 20 | 2 | 262 | 661 | |
| | 1982 Plan | 262 | 32 | 2 | 292 | 736 | |

[1]At the beginning of 1982, 10 Osco stores in Texas, Oklahoma and Louisiana were transferred to Sav-On.

## Jewel of the 80s—After a Decade of Change

Ten years ago, Jewel was generally thought of as a supermarket company. In 1971, supermarkets accounted for 73% of the Company's sales and 86% of U.S. net earnings. More specifically, Jewel was dependent on its Chicago supermarkets for 42% of sales and 55% of net earnings.

In the 1980s Jewel must be viewed differently. Today, and increasingly so in the years ahead, Jewel should be viewed as a leading national food/drug retailer with commitments to segmented retailing serving important niches in the marketplace and with a major investment in the dynamic Mexican market.

What has brought about the change?

- We decided to concentrate our general merchandise expertise around drug store lines of products and to get out of the large-scale self-service department store business.
- We decided that the traditional supermarket becomes more appealing to the consumer and thus a more productive investment when combined with drug store merchandise.
- We stopped building solo supermarkets in all but those few situations in which, because of space limitations or other factors, the combination store can't be put together.
- We decided to significantly broaden our drug store merchandise base, both for the enhancement of our profit margins and to add to our resources for further expansion of food/drug combination stores. The acquisition of Sav-On-Drugs, with stores in California, Texas and Nevada, helps to achieve these purposes.
- We decided that a price niche in grocery retailing was not being well served in the U.S. Thus we are developing Jewel T Discount Grocery Stores in five major markets.
- We reaffirmed that the convenience food store importantly fills another niche at another point in the value spectrum, no one point on which is attractive to all people all of the time. Thus White Hen Pantry continues to be a growth vehicle.
- We reaffirmed that specialty businesses, even though quite unrelated to our mainstream, have a place in Jewel so long as they produce good returns and provide experiences and opportunities for Jewel people. Mass Feeding Corporation, for example, is a productive enterprise.
- We decided that productivity gains were essential.
- And finally, we remain committed to a significant investment in Aurrera, S.A.

Our investment plan for 1982-1984 is consistent with the strategic direction outlined above. Specifically:

We will continue to emphasize the food/drug combination stores. We will increase the number of food/drug combination stores from 85 to more than 180 through a program of new store construction, enlargement of existing supermarkets and conversion of food and drug stores in common locations to a single check-out combination store format.

We will increase our investment in drug retailing. While closing eight obsolete units and converting 26 others to the combination format, we plan to build 80 new drug stores in addition to food/drug combination stores.

We will continue our strong commitment to food retailing. While investing only minimally in new solo supermarkets, we will continue to invest in those supermarkets which cannot be converted to the combination store format, in line with our policy to keep all of our facilities up to date. Further, we will complete a $20 million program which will upgrade 70% of our supermarkets and combination stores with scanning point-of-sale equipment. The investment plans of our supermarket divisions, including our investment in the food component of combination stores, represents slightly more than half of our planned capital outlays.

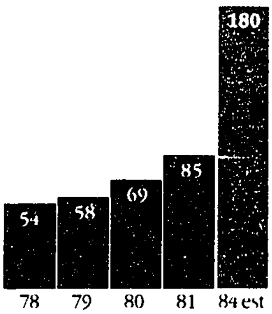
We will invest in specialty food retailing segments as well: more than 100 stores will be added to our White Hen Pantry convenience store division and we will invest sufficient funds in Jewel T Discount Grocery Stores to complete market networks and to install scanning point-of-sale equipment.

We will continue our interest in acquisitions. We remain interested in acquisitions and mergers involving companies which are of the size and strength appropriate to the achievement of our goals and for which merger with Jewel offers the advantages of being part of a diverse, successful and growing retail company. We are interested primarily in retailing companies in the following sectors: drug stores, combination food/drug stores, convenience food stores, and home improvement centers. Jewel's acquisition studies are under the personal direction of the Chairman of the Board.

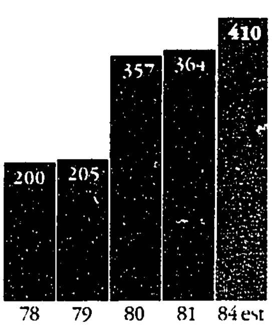
We will continue to diversify Jewel's geographic profile. More than 30% of Jewel's total capital investment is intended for the Mountain, West South Central, and Pacific regions where we anticipate higher than average population growth. We project that by 1984 more than 30% of our sales will be generated in these regions compared to less than 9% in 1975.

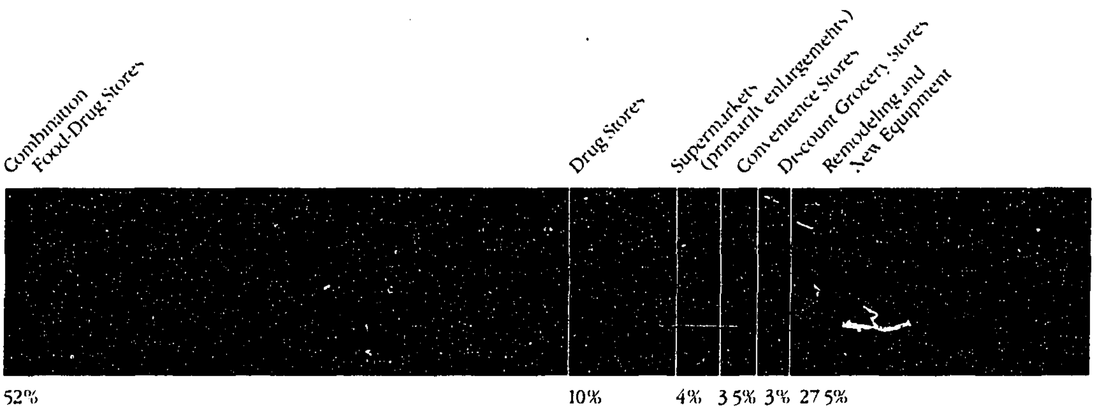
The following charts illustrate our 3-year investment plan from two perspectives: first, the allocation of $340 million in capital intended for retail facilities; second, the allocation of our total investment and working capital program of $528 million for all purposes.

Food/Drug Combination Units
number of units

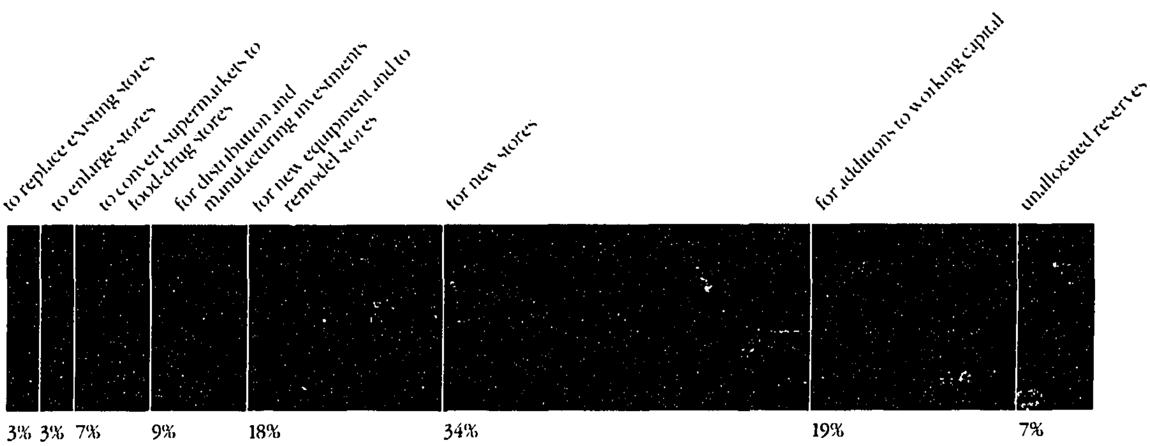



Drug Stores
(excluding combination format)
number of units






1982-1984 Investments in Retail Facilities
$340 million total




1982-1984 Investments for All Purposes including Working Capital
$528 million total

## Financial Objectives and Policies

Jewel's strategic and tactical decisions are made within a framework of specific financial objectives and well-defined financial policies, all of which are designed to achieve the Company's principal goal of providing its shareholdc ‹ith a superior total return on their investm‹ These financial objectives and policies are sun‹ arized in this section.

### Objectives

#### Return On Equity

In its 1978 Annual Report, the Company stated its goal to achieve a minimum return on shareholders' equity of 15% by 1981. This objective was attained in both 1980 and 1981, when the Company's ROE was 17.7% and 17.4% respectively if measured on a FIFO inventory accounting basis consistent with 1978. Within the next four to five years, it is the Company's goal to achieve an ROE of 19% utilizing the current LIFO inve‹ ‹ry accounting method, a return that is expected t‹ be greater than the return its shareholders might expect from alternative investments of equivalent risk.

#### Earnings

In 1978 the Company also announced a goal of achieving domestic earnings equal to at least 1% of sales by 1981. This objective was exceeded in 1980 and 1981 on a consistent FIFO inventory accounting method, when the Company's domestic earnings reached 1.18% and 1.21% of sales respectively. It is now the Company's objective, which was achieved in 1981, that its domestic earnings as a percent of sales be not less than 1% under LIFO accounting and that it gradually move beyond that figure as the business mix continues to change. It is a second but equally important earnings objective to provide contributions to the Company's profit sharing plans that will fund the retirement needs of the Company's employees.

#### Credit Rating

To protect its flexibility and access to capital markets in the financing of future growth and to assure its ability to weather any periods of restricted credit, it is the Company's objective to maintain standards adequate for an "A" credit rating for its long term debt.

### Policies

#### Capital Expenditures

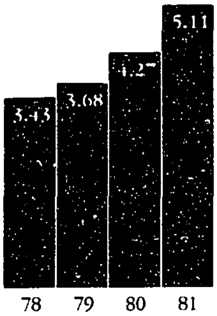
The Company's forward investment plans and financial projections are made in three-year time frames. Individual capital expenditure decisions are based on conformity with such long range plans, evaluation of business and investment opportunities and alternatives, and measurement against discounted cash flow standards designed to ensure that Company financial objectives are attained. Thereafter, actual unit performance is reviewed against the projections which were utilized in the analysis to support the expenditure decisions.

#### Real Estate

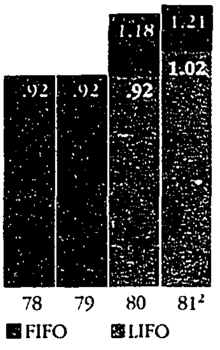
For many years the Company has followed a practice of selective real estate ownership through real estate affiliates using separate long-term financing. This policy has resulted in the Company's ownership of a higher percentage of its retail properties than is usual in its sectors of retailing.

In general, the Company considers the owner-

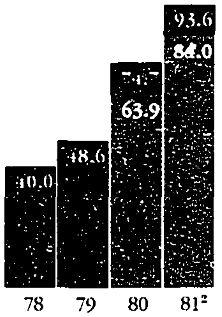
U.S. Sales[1]
in billions of dollars



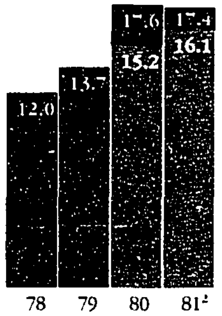

Return on U.S. Sales[1]
percentages



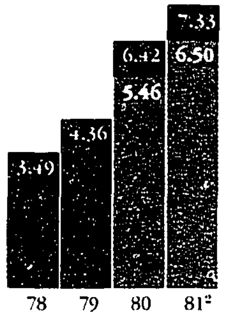

Net Earnings—Consolidated[1]
in millions of dollars




Return on Equity[1]
percentages




Earnings Per Share[1]
in dollars




[1]Continuing operations

[2]Excludes gain on Aurrera stock sale

ship of real estate attractive because it allows maximum flexibility in the use of property, eliminates contingent rents and retains residual values. While many retail sites are available only on a lease basis, the Company owns approximately 49% of the square footage that it utilizes.

## Fixed Charges

It is the Company's policy to ensure that its fixed charges (interest on indebtedness and minimum rentals) are adequately covered by its income. The current level of fixed charge coverage provides sufficient flexibility to assure the Company's continued access to capital markets.

## Dividends

It has been the Company's policy to pay regular quarterly dividends which reflect actual and anticipated profit performance, available investment opportunities and the needs for cash for growth. In balancing the Company's internal need for capital and the expectations of shareholders, the general policy has been for dividends to be in the range of 35-45% of prior year's earnings. This ratio is periodically reviewed and compared with the dividend payment ratios of comparable companies. Because of the availability of attractive investment opportunities, it is expected that over time Jewel's shareholders will be better served if the rate of dividend increases is somewhat less than the rate of earnings growth but higher than the general rate of inflation.

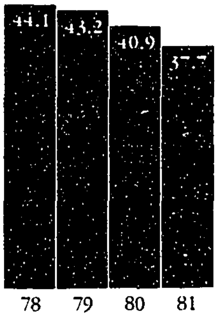
## Fund Sources

The Company will continue to finance its growth with funds internally generated from earnings and depreciation, supplemented by periodic borrowings. Long term debt will be employed as required and seasonal working capital needs will be met through bank credit lines and commercial paper, with the overall purpose being to minimize the cost of funds and retain access to a variety of funding sources.

## Debt Ratios

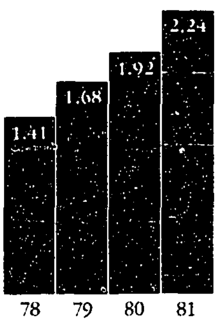
The Company expects that its long term debt will not generally exceed 33⅓% of total capital, excluding real estate mortgages and capitalized leases. If real estate debt and capitalized leases are included, long-term debt will ordinarily not exceed 45% of total capital.

Long-Term Debt[3]
as percent of total capital

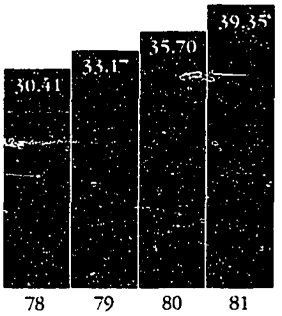



[3]Including Real Estate Debt and Capitalized Leases

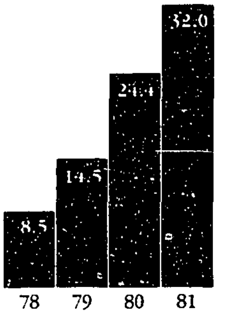
Dividends Declared
Per Common Share
in dollars



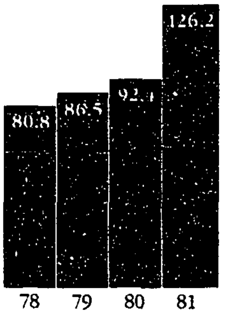

Equity Per Common Share
in dollars




Equity in Aurrera Earnings
in millions of dollars




Capital Expenditures
in millions of dollars



## Aurrera, S.A.

In the second quarter of 1981, Jewel reported the sale of 13.33% of its total investment in Aurrera, S.A., decreasing its equity interest from 41.7% to 36.1%. Despite this reduction, the investment in Aurrera continues to be of central importance in Jewel's future plans. Aurrera is not only Mexico's leading private sector retailer, it has become one of the great publicly owned companies in Mexico with total employment of over 23,000 people and a public ownership of more than 35% of its stock.

Aurrera operates food and general merchandise discount stores, family apparel stores and restaurants in a number of formats. In 1981 Aurrera concluded its 23rd year with record sales and earnings. In its fiscal year ended July 31, 1981, Aurrera sales increased 50% and its net earnings were up 61%. Net earnings were 6% of sales. For the first five months of Aurrera's current fiscal year, from August through December, 1981, earnings in pesos exceeded the same period in the prior year by 37% on a 47% gain in sales.

Highlights of Aurrera's 1981 included the following:

- The expanding Tiendas de Descuento (food and general merchandise discount stores) chain added one shopping center in the city of Guadalajara and reopened an expanded shopping center in Mexico City. There are now 53 discount stores in operation, 45 of which are in Mexico City's metropolitan area and eight of which are in other Mexican cities. These stores represent an aggregate of over two million square feet of sales area.

- The Suburbia apparel and accessories store chain added a second unit in Guadalajara and now operates a total of nine stores with aggregate sales area of over 600,000 square feet.

- The Vips restaurant chain opened four new full-line units (two of which are franchised), five El Porton restaurants and a number of specialized format restaurants, boutiques and ice cream shops. There are now a total of 40 company-operated full-line units, 35 of which are in Mexico City's metropolitan area, 10 El Porton units, all in the Mexico City area, 21 ice cream shops and two specialty restaurants.

Plans for 1982 include the following.

- Tiendas de Descuento will open six more units of which four are shopping centers (three in Mexico City and one in Aguascalientes) and two represent the second and third BONS general merchandise stores. Several enlargements and remodelings are also planned in 1982.

- Suburbia will open its tenth unit, in Mexico City.

- Vips contemplates a major growth:
  Eight full-line restaurants: seven in Mexico City and one in Guadalajara;
  Twelve El Porton restaurants: ten in Mexico City and two in other Mexican cities;
  One specialty restaurant in Guadalajara;
  Three ice cream shops.

Aurrera's payment of regular dividends, commenced in 1973, continued in the prior pattern:

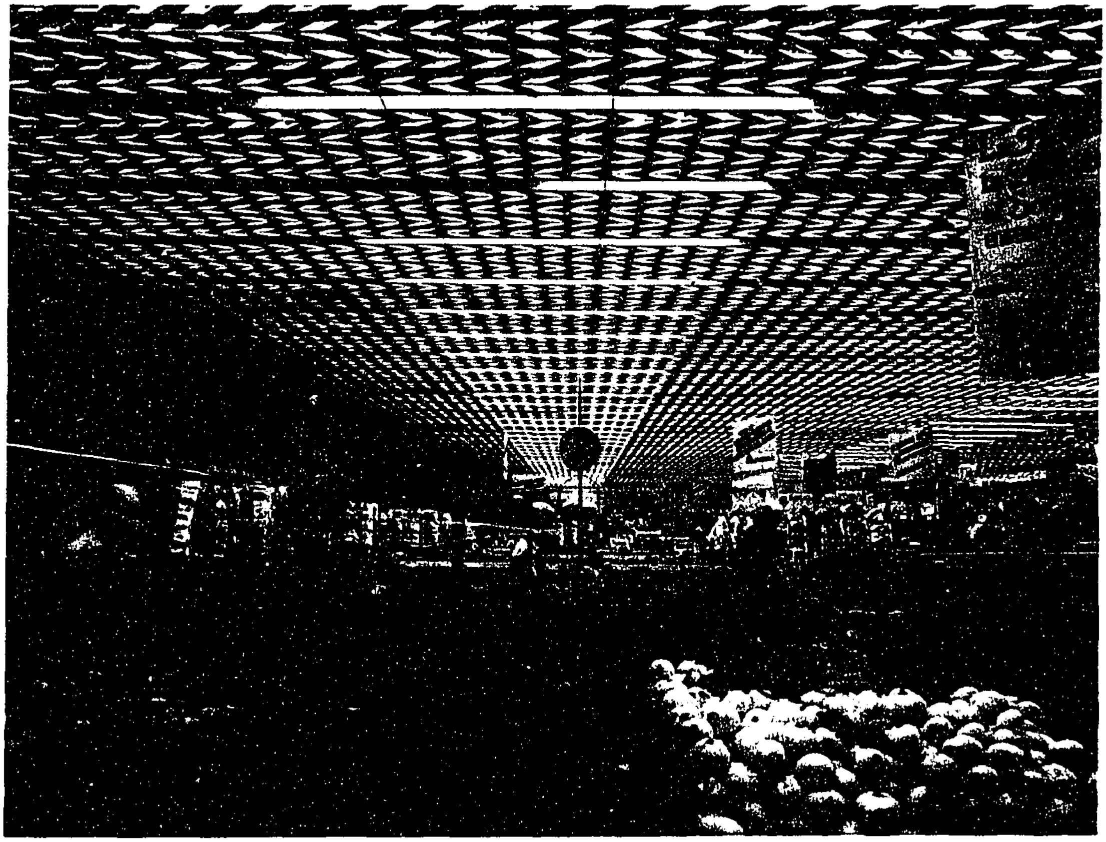
| Fiscal Year | Earnings Per Share (Pesos) | Dividends Per Share Paid From Earnings: Amount[1] (Pesos) | Dividends Per Share Paid From Earnings: Percent |
|---|---|---|---|
| 1972/73 | .20 | 06 | 31 |
| 1973/74 | 25 | 08 | 31 |
| 1974/75 | 34 | 17[2] | 50 |
| 1975/76 | 59 | 30 | 50 |
| 1976/77 | 61 | 31 | 50 |
| 1977/78 | .86 | 43 | 50 |
| 1978/79 | 1 39 | .71 | 51 |
| 1979/80 | 2.10 | 1 07 | 51 |
| 1980/81 | 3.37 | 1 70 | 50 |

[1]Adjusted in all periods to reflect current outstanding shares of 504,000,000

[2]Excludes special dividend of Ps 99,990,000 declared in October, 1975

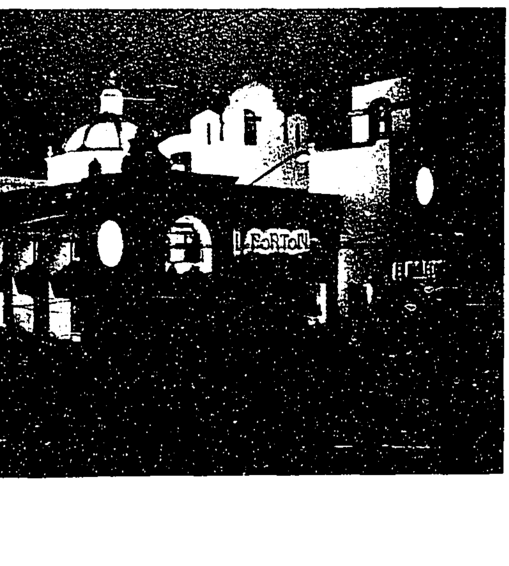
Mexico reported a 28.7% annual inflation rate in its consumer price index during 1981. The widening gap between Mexico's inflation rate and that of the United States resulted in a gradually declining value for the peso during 1981 and on February 17, 1982, the Mexican government allowed the peso to float against other currencies resulting in the first significant valuation drop since 1976.

The devaluation of the peso, combined with 1981's reduction in the percentage equity interest held by Jewel, will result in some reduction in Jewel's earnings from its Aurrera investment. Nevertheless, we continue to have confidence in the long-term dynamic economic development and real growth of Mexico and the sound future of Aurrera in Mexico's retail market place.

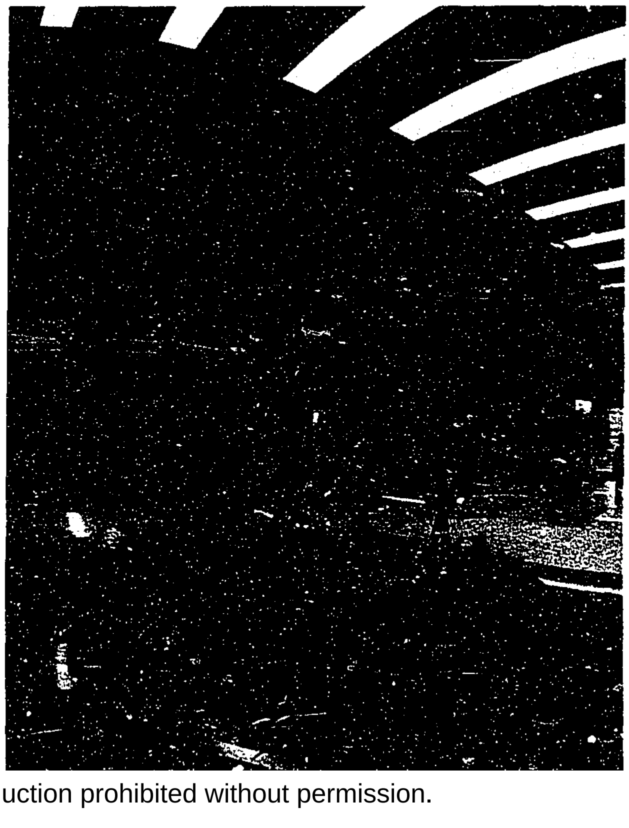


A complete assortment of general merchandise, apparel and food, as well as this impressive display of produce, can be found in this Aurrera discount store in Guadalajara

Aurrera's El Porton/El Malecon combination restaurant, located near Mexico City's International Airport, serves typical Mexican dishes and seafood specialties



The newest Suburbia unit in Guadalajara offers fashion apparel for the entire family



Management is responsible for the preparation of the Company's consolidated financial statements, including the related notes. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and necessarily include some amounts that are based on management's best estimates and judgments.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance, at reasonable cost, that Company assets are adequately protected, transactions are executed in accordance with management's authorization and financial records are reliable as a basis for preparation of financial statements. The system of controls includes careful selection and training of financial management personnel, delegation of authority and division of responsibility, dissemination of written accounting and business policies, and an internal audit program to monitor the effectiveness of the control system. While there are limits inherent in all systems of internal accounting control based on the recognition that the cost of such systems should not exceed the benefits to be derived, management believes the Company's system provides this appropriate balance.

The Company has distributed to key employees its policies for conducting business affairs. Management believes that the policies and procedures provide reasonable assurance that its operations are transacted in conformity with the law and consistent with high ethical standards. At regular times during the year the Company's internal and external auditors meet privately with the Chairman of the Board and the President to review their audit work, the Company's internal controls and financial reporting matters.

The Company's financial statements have been examined by Touche Ross & Co., independent certified public accountants. Their examination was made in accordance with generally accepted auditing standards and included a review of the internal accounting control systems.

The Board of Directors, acting through its Audit Committee composed solely of outside directors, oversees the fulfillment by management of its responsibilities in the preparation of financial statements and financial control of operations. The Audit Committee recommends the selection of the Company's independent public accountants. In 1981, the Committee met four times and reviewed the scope, timing and cost of the Company's internal and external audit programs as well as the results of audit examinations completed by the Company's internal and external auditors. The Company's independent public accountants and internal audit department have full and free access to the Audit Committee.

W. R. Christopherson
Chairman of the Board and Chief Executive Officer

F. Howe
Vice Chairman and Chief Financial Officer

## Management's Analysis of Earnings and Financial Condition

### 1981 Compared to 1980

The Company achieved record results for its 1981 fiscal year which ended January 30, 1982. Consolidated net earnings were $101,670,000, or $8.03 per share, including a gain of $17,650,000, or $1.53 per share, from the sale of 20 million shares of stock of Aurrera, S.A. Excluding the Aurrera stock sale gain, consolidated net earnings were $84,020,000 or $6.50 per common share, compared to consolidated net earnings from continuing operations in the prior year of $63,864,000 or $5.46 per common share.

An analysis of the major factors contributing to the increase in net earnings per common share follows:

| | Increase (Decrease) |
|---|---|
| Operating earnings before unallocated expenses | $1.58 |
| Unallocated—net | (.26) |
| Operating earnings | 1.32 |
| Gain on sale of Aurrera stock | 1.53 |
| Net interest expense | (.37) |
| Effective income tax rate | (.04) |
| Tax credits | .21 |
| Earnings of U.S. companies | 2.65 |
| Equity in Aurrera | .61 |
| Increase in preferred dividends | (.59) |
| Increase in common shares outstanding | (.10) |
| Earnings per common share from continuing operations | $2.57 |

Total sales for the 1981 fiscal year increased 19.7% over the 1980 fiscal year. Including the sales of Sav-On-Drugs, Inc., which was acquired in November 1980, in the prior year comparison, sales in 1981 were 9.0% higher than last year. Sales in identical store units were 6.5% higher than in 1980. The increase in 1981 includes an indeterminable effect of inflation.

Operating earnings in fiscal 1981 increased 33.1% over the prior year and contributed an additional $1.32 per share to net earnings. Combined operating earnings of the Company's four supermarket chains increased 13.2% and contributed an additional $.32 per share to net earnings. Jewel Food Stores and Eisner Food Stores recorded strong gains and Buttrey's results were also ahead of the prior year. In the face of vigorous price competition in the Boston area, Star's results were substantially lower than in 1980.

The Company's drug store earnings were strongly ahead of the prior year and contributed an additional $1.22 to net earnings. The Osco drug stores had a sales gain of 13.2%. With strict attention to expense management, Osco achieved excellent gains in operating earnings. Sav-On-Drugs, Inc. had a year of successful transition into the Jewel organization; the sales gain of 14.4% was as planned, with operating earnings also on plan. 49.2% of Jewel's total operating earnings in 1981 were from drug stores compared with 34.7% in 1980.

Operating earnings of the Company's other businesses were up compared to 1980 and contributed an additional $.04 per share to net earnings. The increase includes a reduction in the net after-tax losses of the Jewel T Discount Grocery store network from $.28 per share in 1980 to $.22 per share in 1981.

White Hen Pantry's convenience stores increased both sales and earnings about as planned. Mass Feeding Corporation had a record year. Park Corporation modestly exceeded its prior year earnings. Brigham's operations were at a loss.

In March 1982, Jewel announced an agreement in principle to sell the assets of its Brigham's ice cream shop and restaurant chain in Boston. When completed, this transaction will result in a small charge to Jewel's first quarter earnings.

Unallocated general corporate expenses and miscellaneous income decreased 1981 earnings $.26 per share reflecting higher general corporate expenses in 1981. Also, 1980 included an after-tax gain of $.07 per share from the Company's sale of shares of Pay Less Drug Stores.

During the second quarter of 1981, the Company sold 20 million shares of the stock of Aurrera, S.A., in which Jewel had an equity investment of 41.7% as of January 31, 1981, thus reducing its equity position to 36.1%. The gain on the sale of Aurrera stock contributed an additional $1.53 per share to 1981 earnings.

Increased net interest expense lowered net earnings $.37 per share. This was primarily the result of additional debt assumed in connection with the Company's acquisition of Sav-On-Drugs, Inc.

Higher targeted job and investment tax credits contributed an additional $.21 per share to 1981 net earnings.

Operations of Aurrera, S.A., in which the Company now has a 36.1% equity interest, continued strong with each of its businesses achieving substantial growth. Aurrera sales during Jewel's fiscal year increased 49.4%. Jewel's equity in Aurrera's earnings was 30.9% higher than in the previous year, which is a lower rate of growth than in earlier years primarily as a result of its sale of 20 million Aurrera shares during the year and the gradual decline of 12% in the value of the peso which occurred during 1981.

In February 1982, the Mexican government announced its decision to allow the peso to float against other currencies, resulting in the first major devaluation since 1976. While the business outlook for Aurrera continues to be very healthy, the currency devaluation combined with Jewel's reduced percentage equity interest will almost certainly result in some reduction in Jewel's 1982 earnings from its Mexican investment although it is too soon to measure the impact.

The preferred dividend requirements of the Series A $2.31 cumulative convertible preferred stock issued in connection with the acquisition of Sav-On-Drugs, Inc. in November 1980 decreased net earnings applicable to common stock by $.59 per share in 1981.

An increase in the average number of common shares outstanding during the year decreased net earnings $.10 per share in 1981.

### Liquidity and Capital Resources

The Company's working capital was $147,526,000 at January 30, 1982 compared with $162,050,000 at January 31, 1981 and $115,210,000 at February 2, 1980. The working capital at January 30, 1982 and January 31, 1981 reflects LIFO inven-

tory reserves of $40,735,000 and $21,542,000, respectively. Starting in the fiscal year ended January 31, 1981, working capital includes the working capital of Sav-On-Drugs, Inc. The Company's current ratio was 1.4 at the end of each of the past three years.

The Company invested more than $126 million in new capital assets in 1981 compared with $92 million in 1980 and $86 million in 1979. During the past three years, the Company has financed approximately 90% of its investment in new long-term assets from internally generated funds. As of 1981 year end, outstanding capital expenditure commitments related to stores under construction were in amounts consistent with plans.

The Company plans to invest $455 million in capital assets (including the Company's Real Estate Affiliates) during the next three years, financed primarily by internally generated funds.

Whenever possible, it is the practice of the Company to finance the land and construction for new stores and support facilities through the Company's Real Estate Affiliate corporations. In these transactions, based upon a lease to Jewel Companies, Inc., individual affiliated real estate corporations borrow up to 99% of the cost of land and buildings; the loan is scheduled to be fully paid out of the rents received from Jewel during the fixed term of the lease, generally 20 years. The Company presently owns approximately 49% of the total square footage comprising its retail and support facilities. Utilizing Jewel Real Estate Affiliates for financing retail properties not only contributes to the growth and earnings of the Company through lower financing costs but also allows retention of the residual value of these properties for the Company.

At January 30, 1982, the consolidated debt to total capital ratio was 37.7%, compared with 40.9% at January 31, 1981 and 43.2% at February 2, 1980. Excluding the debt of the Real Estate Affiliates and the impact of capital leases, the debt to total capital ratio was 24.2% at January 30, 1982 compared with 27.6% at January 31, 1981 and 24.7% at February 2, 1980.

Lines of credit are maintained with commercial banks ($62,000,000 at January 30, 1982) to ensure the availability of adequate funds to meet seasonal requirements. The Company also maintains a $50 million and a $38 million revolving credit agreement to support the sale of commercial paper and to provide additional liquidity if needed. At January 30, 1982, no borrowings were outstanding under either of the revolving credit agreements; however, $58,830,000 of outstanding commercial paper that was supported by the above agreements was classified as long-term debt based on the Company's expectations that short-term borrowings averaging in excess of this amount will be outstanding during the ensuing year in the form of either commercial paper or notes under the revolving credit agreements.

**1980 Compared to 1979**

The Company achieved record earnings in 1980 of $55,210,000 or $4.70 per share, an increase of $.22 per share over 1979.

An analysis of the major factors contributing to the increase in net earnings per common share follows:

| | Increase (Decrease) |
|---|---|
| Operating earnings before unallocated expenses (FIFO) | $1 34 |
| Effect of conversion to LIFO | ( 96) |
| *Unallocated—net* | .09 |
| Operating earnings | .47 |
| Net interest expense | ( 15) |
| Effective income tax rate | 04 |
| Tax credits | .15 |
| Earnings of U S companies | .51 |
| Equity in Aurrera | .86 |
| Increase in preferred dividends | ( 19) |
| Increase in common shares outstanding | ( 08) |
| Earnings from continuing operations | 1 10 |
| Operation subject to disposition | ( 88) |
| Net earnings per common share | $ 22 |

Total sales for 1980 increased 16% over 1979. The 1980 sales include Sav-On-Drugs, Inc. from the date of its acquisition on November 6, 1980. Excluding the sales of Sav-On, since its acquisition in 1980, Jewel's sales were 13% higher than in 1979. Sales in identical store units were 8% higher in 1980. The increase in 1980 includes an indeterminable effect of inflation.

Combined operating earnings of the Company's four supermarket chains were down 3.1% and contributed $.09 per share less to net earnings in 1980 than in 1979. On the FIFO basis of inventory accounting, the combined operating earnings of the Company's supermarket chains increased 15.8% and contributed $.39 per share more to 1980 net earnings than in 1979. Jewel Food Stores, Star Market, Buttrey Food Stores and Eisner Food Stores all had substantially improved results for the year on the FIFO basis.

Drug store earnings contributed an additional $.47 per share to 1980 net earnings. On the FIFO basis, the operating earnings of the drug stores were especially strong and contributed an additional $.88 per share to 1980 net earnings. The Company acquired Sav-On-Drugs, Inc. on November 6, 1980, and the results of Sav-On are reflected in Jewel's results for the fourth quarter of 1980 only. Sav-On's operating earnings were $.45 per share on the LIFO basis of inventory accounting ($.50 per share on the FIFO basis), excluding interest expense of $.14 per share and preferred dividend requirements of $.19 per share.

Operating earnings of the Company's other businesses, in the aggregate, were approximately the same in 1980 as in 1979. White Hen Pantry's convenience stores demonstrated continuing earnings strength. Mass Feeding Corporation's results were higher despite lower sales. Park Corporation's manufacturing results were somewhat lower. The earnings of Brigham's were up slightly from 1979.

At the end of the 1980 fiscal year, Jewel operated 138 Jewel T discount grocery stores in seven states. On the LIFO basis of inventory accounting, operating losses in 1980 were approximately the same as in 1979. However, on the FIFO basis, operating losses of this rapidly expanding chain were reduced by more than 30% in 1980 and in the fourth quarter it operated close to the break-even level.

Unallocated general corporate expenses and miscellaneous income increased 1980 earnings $.09 per share reflecting an after tax gain of $.07 per share from the Company's sale of shares of Pay Less Drug Stores.

Increased net interest expense is principally the result of the Company's acquisition of Sav-On-Drugs, Inc.

Higher tax credits contributed an additional $.15 per share to 1980 net earnings.

Operations of Aurrera, S.A. in which the Company had a 41.7% interest, continued on an excellent trend and contributed an additional $.86 per share to Jewel's 1980 net earnings. Aurrera's sales during Jewel's fiscal year increased 47%, in part due to Mexico's high rate of inflation, and earnings were 59.9% higher than in the previous year.

In connection with the acquisition of Sav-On-Drugs, Inc., the Company issued a new Series A $2.31 cumulative convertible preferred stock. The preferred dividend requirements of this new issue decreased net earnings applicable to common stock by $.19 per common share.

An increase in the average number of common shares outstanding during the year decreased net earnings $.08 per share in 1980.

The results of the operation subject to disposition decreased net earnings $.88 per share compared to 1979. See the Notes to Financial Statements.

**1979 Compared to 1978**

Total sales for the 52-week fiscal year ended February 2, 1980 increased 7.3% compared to the 53-week fiscal year ended February 3, 1979. Excluding the 53rd week in 1978 and the sales of the Company's Turn*Style division which was sold in June 1978, the sales increase was 10.7%. Each of the Company's operating divisions contributed to the sales increase. Sales in identical store units were 7% higher in 1979. The increase in 1979 includes an indeterminable effect of inflation.

Net earnings for 1979 increased $.94 per common share over 1978. An analysis of the major factors contributing to the increase follows:

| | Increase (Decrease) |
|---|---|
| Operating earnings before unallocated expenses | $ .33 |
| Unallocated—net | (.11) |
| Operating earnings | .22 |
| Losses on facility dispositions | .03 |
| Net interest expense | ( 14) |
| Effective income tax rate | .11 |
| Earnings of U.S. companies | .22 |
| Equity in Aurrera | .56 |
| Decrease in common shares outstanding | .09 |
| Earnings from continuing operations | .87 |
| Operation subject to disposition | .07 |
| Net earnings per common share | $ .94 |

Operating earnings of the Company's four supermarket divisions contributed an additional $.23 per share to 1979 net earnings. The increase includes $.11 per share from higher sales with the remaining improvement principally attributable to continuing improvements in inventory shrink losses and store level expenses in the Jewel Food Stores division.

General merchandise operating earnings contributed an additional $.23 per share to 1979 net earnings. The Osco drug stores achieved record sales and earnings which improved 1979 net earnings $.10 per share. The balance of the 1979 increase is principally due to 1978 results being depressed as a result of winding down operations in connection with the sale of Turn*Style in June 1978.

Operating earnings from the Company's other operations were down $.13 per share compared to 1978. The decrease includes additional start-up losses of approximately $.24 per share (as compared to $.06 per share in 1978) in the expansion program of Jewel T Discount Grocery stores which were partially offset by record operating results in the Company's White Hen Pantry convenience stores and Park Corporation's manufacturing operations.

Unallocated 1979 net earnings declined $.11 per share as 1978 included capital gains of $.12 per share from the sale of Aurrera stock in July 1978.

Increased net interest expense lowered net earnings $.14 per share. This reduction in net earnings is primarily the result of increased short-term borrowings at higher interest rates.

A lower effective income tax rate in 1979 increased net earnings $.11 per share. The decrease in the effective tax rate reflects a reduction in the federal statutory tax rate from 48% in 1978 to 46% in 1979 and higher tax credits of $.06 per share, partially offset by higher state income taxes.

Operations of Aurrera, S.A., Mexico's leading private sector retailer in which Jewel had a 41.7% interest, continued strong in 1979. Sales for the 12 months ended December 31, 1979 increased 40.3%. The resultant increases in operating results as well as improved margins and a lower effective Mexican income tax rate resulted in a $.56 per share increase in Jewel's equity in the net earnings of Aurrera.

A decrease in the average number of common shares outstanding in 1979, as a result of the purchase of 557,600 outstanding common shares in September 1978, contributed $.09 per share to net earnings in 1979.

## Summary of Significant Accounting Policies

Principles Applied in Consolidation

The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations. All significant intercompany transactions are eliminated.

Inventories

Inventories are valued at the lower of cost or market. In 1980, the Company changed its method of valuing inventories from the first-in, first-out (FIFO) to the last-in, first-out (LIFO) method for approximately 87% of its inventories. Cost for the balance of the inventories at January 30, 1982 and January 31, 1981 and for all inventories at February 2, 1980 was determined on a FIFO or weighted average basis.

Investment in Aurrera, S.A.

The Company's investment in Aurrera, S.A. (Mexico), 36.1% owned as of January 30, 1982 and 41.7% owned as of January 31, 1981, is carried at cost plus equity in undistributed earnings since its acquisition in 1969. The excess of cost over acquired net assets is not being amortized because there has been no diminution in value. All foreign currency translations have been accounted for in 1981 in accordance with Statement of Financial Accounting Standards No. 52.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost and include certain assets acquired through the use of long-term lease obligations. Depreciation is computed on the straight-line method for financial statement purposes and on accelerated methods for tax purposes. Leasehold improvements and capital leases are amortized over the shorter of estimated physical life or the term of the lease. Useful lives average 32 years for buildings, 15 years for leasehold improvements, 10 years for equipment and 3-6 years for transportation equipment.

The cost of land, buildings and equipment is eliminated from the accounts at the time assets are sold or retired. Differences between net book value and proceeds on normal equipment dispositions are recorded in the accumulated depreciation account. Gains and losses on the disposition of land and buildings are reflected in the statement of earnings.

Income Taxes

The Company recognizes investment tax credits as a reduction of federal income tax expense in the year in which the related assets are placed into service.

Other Deferred Liabilities

Costs associated with the Company's contingent compensation plans and self-insurance program are charged against current earnings. The portion of such costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

Pre-opening Costs

Pre-opening costs are charged to expense as incurred.

## Statements of Earnings

| (In thousands except per share data) | 52 Weeks Ended Jan. 30, 1982 | 52 Weeks Ended Jan. 31, 1981 | 52 Weeks Ended Feb. 2, 1980 |
|---|---|---|---|
| Sales | $5,107,614 | $4,267,922 | $3,684,929 |
| Costs of Doing Business: | | | |
| Cost of goods sold | 4,067,853 | 3,435,838 | 2,939,007 |
| Selling, general and administrative expenses | 919,914 | 742,052 | 665,990 |
| | 4,987,767 | 4,177,890 | 3,604,997 |
| Operating Earnings | 119,847 | 90,032 | 79,932 |
| Gain on Sale of Aurrera Stock | 27,285 | — | — |
| Interest Income | 4,377 | 3,314 | 2,356 |
| Interest Expense: | | | |
| Jewel Companies, Inc. | (29,025) | (19,415) | (15,259) |
| Real estate affiliates | (10,996) | (10,897) | (10,881) |
| Earnings of U.S. Companies From Continuing Operations Before Income Taxes | 111,488 | 63,034 | 56,148 |
| Income Taxes | 41,772 | 23,586 | 22,101 |
| Earnings of U.S. Companies From Continuing Operations | 69,716 | 39,448 | 34,047 |
| Equity in Net Earnings of Aurrera, S.A. | 31,954 | 24,416 | 14,543 |
| Earnings From Continuing Operations | 101,670 | 63,864 | 48,590 |
| Earnings (Loss) From Discontinued Operation, Net of Income Taxes | — | (8,654) | 1,373 |
| **Net Earnings** | **$101,670** | **$ 55,210** | **$ 49,963** |
| Primary Earnings Per Average Common Share Outstanding: | | | |
| Earnings from continuing operations | $ 8.03 | $ 5.46 | $ 4.36 |
| Earnings (loss) from discontinued operation | — | (.76) | .12 |
| **Primary Earnings Per Share** | **$ 8.03** | **$ 4.70** | **$ 4.48** |
| Fully Diluted Earnings Per Share: | | | |
| Earnings from continuing operations | $ 7.03 | $ 5.25 | $ 4.28 |
| Earnings (loss) from discontinued operation | — | (.71) | .12 |
| **Fully Diluted Earnings Per Share** | **$ 7.03** | **$ 4.54** | **$ 4.40** |

## Statements of Retained Earnings

| | | | |
|---|---|---|---|
| Balance, Beginning of Year: | | | |
| As previously reported | $335,271 | $303,346 | $271,458 |
| Adjustment for change in accounting for compensated absences | (6,476) | (5,793) | (5,070) |
| As restated | 328,795 | 297,553 | 266,388 |
| Net Earnings | 101,670 | 55,210 | 49,963 |
| Cash Dividends Declared: | | | |
| 3¾% preferred stock—$3.75 per share | (10) | (30) | (40) |
| Series A preferred stock—$2.31 in 1981; $.56 in 1980 | (8,898) | (2,161) | — |
| Common stock—$2.24 in 1981; $1.92 in 1980; $1.68 in 1979 | (26,003) | (21,777) | (18,758) |
| **Balance, End of Year** | **$395,554** | **$328,795** | **$297,553** |

*The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.*

## Statements of Financial Position

| (In thousands) | January 30, 1982 | January 31, 1981 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 23,505 | $ 17,853 |
| Short-term investments | 8,768 | 20,133 |
| Accounts receivable | 52,118 | 42,005 |
| Inventories | 453,831 | 426,999 |
| Prepaid expenses and other | 23,941 | 25,783 |
| Total current assets | 562,163 | 532,773 |
| Investment in Aurrera, S.A. | 67,287 | 75,873 |
| Land, Buildings and Equipment, net: | | |
| Jewel Companies, Inc. | 510,422 | 471,743 |
| Real estate affiliates | 190,723 | 180,507 |
| Total land, buildings and equipment | 701,145 | 652,250 |
| Notes Receivable from Exercise of Stock Options | 9,321 | 3,458 |
| Excess of Cost over Net Assets Acquired | 18,942 | 17,095 |
| Other Assets | 21,013 | 14,326 |
| | **$1,379,871** | **$1,295,775** |

| | | |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities: | | |
| Accounts payable | $ 194,866 | $ 169,176 |
| Payrolls and other accrued expenses | 198,678 | 181,449 |
| Income taxes payable | 5,885 | 5,489 |
| Current maturities of long-term debt: | | |
| Jewel Companies, Inc. | 7,384 | 7,086 |
| Real estate affiliates | 7,824 | 7,523 |
| Total current liabilities | 414,637 | 370,723 |
| Long-Term Debt, less current maturities: | | |
| Jewel Companies, Inc. | 215,696 | 230,525 |
| Real estate affiliates | 120,778 | 118,661 |
| Deferred Income Taxes | 47,064 | 46,276 |
| Other Deferred Liabilities | 25,946 | 25,060 |
| Shareholders' Equity: | | |
| Preferred stock—3¾% cumulative $100 par value—authorized and issued 10,500 shares at January 30, 1982 and 16,500 shares at January 31, 1981 | 1,050 | 1,650 |
| Series A preferred stock—$2.31 cumulative convertible—$1 par value—authorized 5,000,000 shares, issued 3,849,761 shares at January 30, 1982 and 3,854,201 shares at January 31, 1981 | 96,111 | 96,311 |
| Common stock—$1 par value—authorized 50,000,000 shares, issued 11,686,736 shares at January 30, 1982 and 11,678,441 shares at January 31, 1981 | 85,853 | 85,992 |
| Retained earnings | 395,554 | 328,795 |
| Foreign currency translation adjustment | (21,642) | — |
| Treasury stock, at cost | (1,176) | (8,218) |
| Total shareholders' equity | 555,750 | 504,530 |
| | **$1,379,871** | **$1,295,775** |

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

## Statements of Changes in Financial Position

| (In thousands) | 52 Weeks Ended Jan 30, 1982 | 52 Weeks Ended Jan. 31, 1981 | 52 Weeks Ended Feb. 2, 1980 |
|---|---|---|---|
| **Funds Provided by (Used for) Operating Transactions** | | | |
| Continuing operations: | | | |
| Earnings | $101,670 | $ 63,864 | $ 48,590 |
| Charges and (credits) not affecting funds: | | | |
| Depreciation and amortization | 72,920 | 61,814 | 55,466 |
| Deferred taxes and other deferred liabilities | 1,674 | (472) | 5,331 |
| Undistributed net earnings of Aurrera, S.A. | (22,331) | (16,728) | (9,364) |
| Total funds provided by continuing operations | 153,933 | 108,478 | 100,023 |
| Earnings (loss) from discontinued operation, net of depreciation | — | (7,384) | 2,570 |
| (Increase) decrease in working capital, excluding cash and short-term investments: | | | |
| Accounts receivable | (10,113) | (1,356) | (3,092) |
| Inventories | (26,832) | (13,844) | (33,389) |
| Prepaid expenses and other | 1,842 | 2,102 | (5,569) |
| Accounts payable | 25,690 | (22,470) | 1,627 |
| Payrolls and other accrued expenses | 17,229 | 33,244 | 596 |
| Income taxes payable | 396 | 1,156 | (1,053) |
| Current maturities of long-term debt | 599 | (205) | 254 |
| Total change in working capital, excluding cash and short-term investments | 8,811 | (1,373) | (40,626) |
| New land, buildings and equipment: | | | |
| Jewel Companies, Inc. | (108,459) | (79,261) | (78,766) |
| Real estate affiliates | (17,724) | (13,154) | (7,720) |
| Disposals of land, buildings and equipment | 4,846 | 9,678 | 6,031 |
| Cost of Aurrera stock sold | 9,715 | — | — |
| Net assets of discontinued operation | — | 14,083 | 26 |
| Other | (15,315) | (4,478) | (1,934) |
| **Net Funds Provided by (Used for) Operating Transactions** | **35,807** | **26,589** | **(20,396)** |
| **Funds Provided by (Used for) Financial Transactions** | | | |
| Acquisition of Sav-On-Drugs, Inc.: | | | |
| Working capital | — | (42,066) | — |
| Land, buildings and equipment | — | (100,411) | — |
| Other assets | — | (7,105) | — |
| Excess of cost over net assets acquired | — | (17,196) | — |
| Long-term debt and capital leases | — | 23,318 | — |
| Preferred stock issued for Sav-On-Drugs, Inc. | — | 96,269 | — |
| Dividends to shareholders | (34,911) | (23,968) | (18,798) |
| Exercise of stock options and employee stock purchase plan | 6,727 | 5,229 | 1,217 |
| Acquisition of treasury stock | (624) | (52) | (298) |
| Repayment of long-term debt: | | | |
| Jewel Companies, Inc. | (25,911) | (9,178) | (7,908) |
| Real estate affiliates | (8,948) | (9,087) | (7,972) |
| **Net Funds Used for Financial Transactions** | **(63,667)** | **(84,247)** | **(33,759)** |
| **Total Funds Used** | **$(27,860)** | **$(57,658)** | **$(54,155)** |

| | | | |
|---|---|---|---|
| **Source of Funds** | | | |
| (Decrease) increase in: | | | |
| Cash | $ 5,652 | $ (5,946) | $ 8,710 |
| Short-term investments | (11,365) | 9,347 | (32,463) |
| Decrease (increase) in long-term debt: | | | |
| Jewel Companies, Inc. | (11,082) | (56,761) | (25,337) |
| Real estate affiliates | (11,065) | (4,298) | (5,065) |
| **Total Source of Funds** | **$(27,860)** | **$(57,658)** | **$(54,155)** |

*The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.*

## Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors,
Jewel Companies, Inc.

We have examined the consolidated statements of financial position of Jewel Companies, Inc. as of January 30, 1982 and January 31, 1981 and the related statements of earnings, retained earnings and changes in financial position for each of the three fiscal years in the period ended January 30, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of Aurrera, S.A., a Mexican company in which Jewel has a 36.1% interest at January 30, 1982. The consolidated financial statements of Aurrera, S.A. for each of its three fiscal years in the period ended July 31, 1981 were examined by other independent auditors whose unqualified report thereon has been furnished to us.

In our opinion, which as to amounts with respect to Aurrera, S.A. for each of its three fiscal years in the period ended July 31, 1981 is based on the report of other independent auditors described above, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. as of January 30, 1982 and January 31, 1981, and the results of its operations and the changes in its financial position for each of the three years in the period ended January 30, 1982, in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1980 to the last-in, first-out method of valuing inventories and the change in 1981 in the method of translating foreign currency financial statements as described in the Notes to Financial Statements and with which we concur.

TOUCHE ROSS & CO.
Chicago, Illinois
March 20, 1982

## Notes to Financial Statements

### Change in Accounting for Compensated Absences

During the year the Company changed its method of accounting for compensated absences to comply with Statement of Financial Accounting Standards No. 43. Financial statements for prior periods have been restated to reflect the change in accounting for compensated absences. The effect of the change was to decrease net earnings by $677,000 ($.06 per share) in 1981, $683,000 ($.06 per share) in 1980 and $723,000 ($.06 per share) in 1979.

### Foreign Currency Translation

During 1981 the Company changed its accounting for foreign currency translations in accordance with Statement of Financial Accounting Standards No. 52. Using FASB Statement No. 52 rather than FASB Statement No. 8 resulted in higher equity in the net earnings of Aurrera for 1981 of $3,465,000 or $.30 per Jewel common share. The adoption of this Statement also resulted in the Company charging foreign currency translation adjustments to shareholders' equity in the amount of $14,240,000 as of February 1, 1981, and $7,402,000 for the current year. Prior years' statements of earnings have not been restated since the effect is immaterial.

During 1981 the average exchange rate of the peso was 4.1¢ in U.S. currency. In February 1982 the Mexican government announced its decision to allow the peso to float against other currencies. At the end of March 1982, the peso was trading in the range of 2.2¢ in U.S. currency.

### Accounting for Inventories

During fiscal 1980, the Company changed its method of accounting for approximately 87% of its inventories from the first-in, first-out (FIFO) to the last-in, first-out (LIFO) method. The carrying value of inventories stated at LIFO cost was approximately $40,735,000 and $21,542,000 less than the amount of such inventories stated at FIFO cost at January 30, 1982 and January 31, 1981, respectively.

Earnings on a FIFO basis, presented as supplementary information in order to provide a basis for comparison with prior years and with companies using the FIFO method, would have been greater than reported net earnings by approximately $9,609,000 or $.83 per primary share, for fiscal 1981, and $10,792,000 or $.96 per primary share, for fiscal 1980.

### Sale of Aurrera Stock

During the second quarter of 1981, the Company sold 20 million shares of the stock of Aurrera, S.A., in which the Company had a 41.7% equity investment as of January 31, 1981, thus reducing its equity investment position to 36.1%. The sale resulted in a net gain of $17,650,000 or $1.53 per Jewel common share ($1.22 fully diluted). The gain was reported in accordance with the provisions of Statement of Financial Accounting Standards No. 52 pertaining to foreign currency translations.

### Acquisition

Effective November 6, 1980 the Company acquired Sav-On-Drugs, Inc. The Company acquired 28.3% of the outstanding common shares of Sav-On for $37,929,000 in a cash tender offer that expired on September 19, 1980 and received the remaining Sav-On common shares in exchange for 3,850,745 shares of a new issue of Jewel $2.31 cumulative convertible preferred stock with a fair market value of $96,269,000. The total cost of the acquisition, including expenses, was $138,274,000. The excess of the total acquisition cost over the fair value of net assets acquired was $19,373,000 and is being amortized on the straight-line basis over forty years.

The acquisition has been accounted for as a purchase. Accordingly, the results of operations of Sav-On have been included in the consolidated results of the Company since November 6, 1980.

The following unaudited pro forma data present the results of operations of the Company as if Sav-On had been acquired at the beginning of fiscal 1979. The following data reflects adjustments for interest on borrowed funds, amortization of goodwill, additional depreciation on revalued purchased assets, the conversion from accelerated to straight-line depreciation for book purposes for certain of Sav-On's assets and preferred dividend requirements for the new cumulative convertible preferred stock.

| (In thousands except per share data) | 1980 | 1979 |
|---|---|---|
| Sales | $4,731,567 | $4,211,924 |
| Earnings from continuing operations | $ 65,345 | $ 54,689 |
| Net earnings | $ 56,691 | $ 56,062 |
| Per average common share outstanding— | | |
| Primary: | | |
| Earnings from continuing operations | $ 5.00 | $ 4.10 |
| Net earnings | $ 4.23 | $ 4.23 |
| Fully diluted: | | |
| Earnings from continuing operations | $ 4.58 | $ 3.88 |
| Net earnings | $ 3.98 | $ 3.97 |

During 1979, Sav-On adopted the LIFO method of inventory valuation. However, Jewel used the FIFO method of inventory valuation. Assuming both Jewel and Sav-On used the FIFO method in 1979, the primary and fully diluted net earnings per share would have been $4.47 and $4.17, respectively.

## Discontinued Operation

As announced in January 1981, the Company discontinued ownership of the Jewel Home Shopping Service and transferred that business to a cooperative organization, formed and managed by certain of its former employees. The transfer was completed in June 1981.

At January 31, 1981, the Company set up a provision for losses from the discontinued operation that included reserves for operating losses after January 31, 1981, asset write-offs and accrued and other termination costs. The balance in the reserve account as of January 30, 1982 is expected to be adequate for all remaining estimated future costs.

## Land, Buildings and Equipment

The Company's investment in land, buildings and equipment consists of the following:

| | January 30, 1982 | | January 31, 1981 | |
|---|---|---|---|---|
| (In thousands) | Jewel Cos., Inc. | Real Estate Affiliates | Jewel Cos.,Inc. | Real Estate Affiliates |
| Buildings | $ 95,650 | $185,245 | $ 86,172 | $172,257 |
| Less allowance for depreciation | 30,891 | 52,052 | 24,830 | 46,633 |
| | 64,759 | 133,193 | 61,342 | 125,624 |
| Equipment and leasehold improvements | 718,071 | | 643,321 | |
| Less allowance for depreciation and amortization | 358,816 | | 319,300 | |
| | 359,255 | | 324,021 | |
| Leased assets under capital leases | 55,740 | | 56,278 | |
| Less allowance for amortization | 21,559 | | 21,101 | |
| | 34,181 | | 35,177 | |
| Land | 52,227 | 57,530 | 51,203 | 54,883 |
| Total land, buildings and equipment | $510,422 | $190,723 | $471,743 | $180,507 |

## Short-Term and Long-Term Debt

Debt shown in the statements of financial position consists of the following:

| (In thousands) | Jan. 30, 1982 | Jan. 31, 1981 |
|---|---|---|
| Jewel Companies, Inc.: | | |
| Commercial Paper, 13.29% and 17.51% average rate, supported by revolving credit agreements | $ 58,830 | $ 38,390 |
| Commercial Banks: | | |
| 4.50%, due in annual installments of $1,250 through 1987 | 7,500 | 8,750 |
| $38,000 Revolving Credit Agreement, interest at 102% of prime rate | — | 38,000 |
| $50,000 Revolving Credit Agreement | — | — |
| Industrial Revenue Bonds, 12.67% average rate, due through 2001 | 8,731 | — |
| Insurance Companies: | | |
| 6.875%, due in annual installments of $1,500 through 1993 | 18,000 | 19,500 |
| 7.875%, due in annual installments of $1,500 through 1994 | 19,500 | 21,000 |
| 8.25%, due in semi-annual installments of $1,500 from 1983 through 1997 with the balance due in 1997 | 50,000 | 50,000 |
| 10%, due in annual installments of $3,500 in 1984 and 1985 | 7,000 | 7,000 |
| Mortgages, 8.90% and 8.91% average rate, due through 2001 | 12,421 | 13,215 |
| Capital Lease Obligations, 9.82% and 9.48% average rate, due through 2000 | 39,993 | 40,293 |
| All Other, 6.57% and 6.28% average rate, due through 1997 | 1,105 | 1,463 |
| Total | $223,080 | $237,611 |
| Classified as follows: | | |
| Current maturities | $ 7,384 | $ 7,086 |
| Long-term debt | 215,696 | 230,525 |
| Total | $223,080 | $237,611 |
| Real Estate Affiliates, mortgages, 8.89% and 8.51% average rate, due through 2005: | | |
| Current maturities | $ 7,824 | $ 7,523 |
| Long-term debt | 120,778 | 118,661 |
| Total | $128,602 | $126,184 |

Long-term debt matures as follows:

| (In thousands) | January 30, 1982 Jewel Cos., Inc. | Real Estate Affiliates |
|---|---|---|
| 1983 | $ 11,362 | $ 7,610 |
| 1984 | 31,804 | 7,497 |
| 1985 | 32,258 | 7,737 |
| 1986 | 29,064 | 7,675 |
| Thereafter | 111,208 | 90,259 |
| Total | $215,696 | $120,778 |

The Company maintains bank credit lines totaling $150,000,000, of which $88 million is in the form of revolving credit and $62 million is seasonal credit. The revolving credit is in two parts. A $50 million agreement with two banks provides for a commitment fee of ½% per annum on the daily unused portion and interest at 105% of the prevailing prime rate on any borrowings until December 31, 1983. On or before December 31, 1983, the Company may convert all, or any part of, the outstanding balance into a term loan payable in twelve equal quarterly installments with interest at 108% of the prime rate. At January 30, 1982 and January 31, 1981, no borrowings were outstanding under this agreement.

A $38 million revolving credit agreement with a third bank provides for a standby fee of ½% per annum on the daily unused portion and interest at 102% of the prevailing prime rate on any borrowings until August 3, 1982. On or before August 3, 1982, the Company may convert all, or any part of, the outstanding balance into a term note payable in quarterly installments aggregating 5% of the original principal amount during the first year, 10% during the second year, 15% during the third year, 20% during the fourth and fifth years, and 30%, or so much of the amount that remains unpaid, during the sixth year. At January 31, 1981, $38,000,000 was outstanding under this agreement and was classified as long-term debt. On January 30, 1982, no borrowings were outstanding under this agreement.

At January 30, 1982 and January 31, 1981, $58,830,000 and $38,390,000, respectively, of outstanding commercial paper was classified as long-term debt based on the Company's expectation that short-term borrowings averaging in excess of this amount will be outstanding during the ensuing year in the form of either commercial paper or notes under the revolving credit agreements.

Most of the seasonal bank lines, which totaled $62 million at January 30, 1982 and $58 million at January 31, 1981, are supported by cash balances which are largely generated from the normal time lag in the presentation of Company checks for payment. The arrangements with the banks are informal in nature and do not restrict the availability of such supporting funds in meeting the Company's daily cash requirements. A small portion of the bank lines are supported by the payment of fees in lieu of balances.

The maximum amount of short-term borrowings outstanding during 1981 was $108,000,000 and averaged $30,000,000 on a daily basis. The average interest rate on these borrowings was 15.54%. For fiscal year 1980, the maximum amount outstanding was $73,000,000 and averaged $18,000,000 on a daily basis. The average interest rate on these borrowings was 13.51%.

The Company's loan agreements provide restrictions as to the maintenance of working capital (as defined) and payment of cash dividends on common stock. As of January 30, 1982, working capital was $68,000,000 in excess of minimum requirements and retained earnings not restricted for payment of cash dividends were $114,000,000.

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc. but is secured by the assignment of lease agreements between Jewel and the affiliates and first liens against real properties having a book value of approximately $191,000,000 at January 30, 1982, as compared to $181,000,000 at January 31, 1981. The debt will be fully paid during the fixed term of each lease, generally 20 years.

## Income Taxes

The provision for income taxes consists of the following:

| (In thousands) | 1981 | 1980 | 1979 |
|---|---|---|---|
| Federal: | | | |
| Current | $42,972 | $26,008 | $20,828 |
| Deferred | (371) | 657 | 2,249 |
| Tax credits | (10,425) | (7,975) | (6,261) |
| Total federal income taxes | 32,176 | 18,690 | 16,816 |
| State and Local: | | | |
| Current | 9,195 | 4,821 | 5,092 |
| Deferred | 401 | 75 | 193 |
| Total state and local income taxes | 9,596 | 4,896 | 5,285 |
| Total income taxes | $41,772 | $23,586 | $22,101 |

Deferred income taxes result from timing differences in the recognition of certain income and expense items for tax and financial statement purposes. The provision for deferred federal income taxes consists of the following:

| (In thousands) | 1981 | 1980 | 1979 |
|---|---|---|---|
| Depreciation | $ 3,836 | $ 3,542 | $ 4,588 |
| Self-insured claims | (1,015) | (2,114) | (727) |
| Other | (3,192) | (771) | (1,612) |
| Total | $ (371) | $ 657 | $ 2,249 |

A reconciliation of the federal statutory tax rate with the effective tax rate follows:

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Statutory tax rate | 46.0% | 46.0% | 46.0% |
| State income taxes, net of federal income tax benefit | 4.7 | 4.2 | 5.1 |
| Tax credits | (9.5) | (12.7) | (11.2) |
| Effect of Aurrera stock sale | (3.7) | — | — |
| Other | — | (.1) | (.5) |
| Effective tax rate on U.S. earnings | 37.5 | 37.4 | 39.4 |
| Effect of foreign earnings | (8.4) | (10.4) | (8.1) |
| Effective tax rate on consolidated net earnings | 29.1% | 27.0% | 31.3% |

No provision has been made for U.S. income taxes on foreign earnings because any income tax payable would be substantially offset by foreign tax credits.

The Internal Revenue Service is presently examining the federal income tax returns of the Company and its subsidiaries, excluding Sav-On-Drugs, Inc. and its subsidiaries, for fiscal years 1976 and 1977, and of Sav-On-Drugs, Inc. and its subsidiaries for calendar years 1978 and 1979 and its short year ended November 6, 1980. While the outcome of these examinations is not determinable at this time, in the opinion of management, income tax reserves are adequate for all years for which the Company's liability has not been finally resolved.

## Capital Stock

Common stock transactions were as follows:

| | 1981 | | 1980 | | 1979 | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Shares | Amount | Shares | Amount | Shares | Amount |
| Balance, beginning of year | 11,678,441 | $85,992 | 11,678,339 | $86,449 | 11,675,436 | $86,644 |
| Issued for stock option and stock purchase plans | — | — | — | — | 2,903 | 67 |
| Cost of treasury shares sold over proceeds from stock option and stock purchase plans | — | (2,064) | — | (1,797) | — | (333) |
| Conversion of Series A convertible preferred stock | 8,295 | 291 | 102 | 4 | — | — |
| Gain on retirement of 3¾% preferred stock | — | 166 | — | — | — | — |
| Income tax benefit attributable to stock options | — | 1,468 | — | 1,336 | — | 71 |
| Balance, end of year | 11,686,736 | $85,853 | 11,678,441 | $85,992 | 11,678,339 | $86,449 |

Treasury stock transactions were as follows:

| | Common Stock | | 3¾% Preferred | |
|---|---|---|---|---|
| (Dollars in thousands) | Shares | Amount | Shares | Amount |
| Balance at February 3, 1979 | 546,950 | $14,647 | 4,014 | $277 |
| Purchases | — | — | 3,800 | 298 |
| Sold under stock option and stock purchase plans | (52,714) | (1,412) | — | — |
| Balance at February 2, 1980 | 494,236 | 13,235 | 7,814 | 575 |
| Purchases | — | — | 669 | 52 |
| Sold under stock option and stock purchase plans | (226,564) | (5,644) | — | — |
| Balance at January 31, 1981 | 267,672 | 7,591 | 8,483 | 627 |
| Purchases | — | — | 7,045 | 624 |
| Retired | — | — | (6,000) | (434) |
| Sold under stock option and stock purchase plans | (258,038) | (7,232) | — | — |
| Balance at January 30, 1982 | 9,634 | $ 359 | 9,528 | $817 |

In connection with the acquisition of Sav-On-Drugs, Inc., the Company created a new issue of Series A $2.31 cumulative convertible preferred stock. The shares have a liquidation preference of $25 per share and are entitled to .713 of a vote per share. The shares are convertible into .713 of a share of common stock and are callable at the option of the Company after ten years at $26 per share and thereafter at prices declining to $25 in the fifteenth and subsequent years. During 1981, 11,640 shares were converted into common stock.

Common stock reserved was as follows:

| | Jan. 30, 1982 | Jan. 31, 1981 |
|---|---|---|
| Stock option plan | 704,262 | 991,029 |
| Employee stock purchase plan | 172,304 | 183,101 |
| Automatic dividend reinvestment and stock purchase plan | 38,963 | 48,377 |
| Conversion of Series A preferred stock | 2,744,885 | 2,753,180 |
| Total common stock reserved | 3,660,414 | 3,975,687 |

The following summary shows the changes in stock options:

| | 1981 | 1980 |
|---|---|---|
| Options outstanding, beginning of year | 765,550 | 868,150 |
| Granted | 109,000 | 226,500 |
| Exercised | (286,767) | (283,600) |
| Expired | — | (45,500) |
| Options outstanding, end of year | 587,783 | 765,550 |
| | Jan. 30, 1982 | Jan. 31, 1981 |
| Options exercisable | 478,783 | 541,550 |
| Shares available for grant | 116,479 | 225,479 |

Outstanding options were granted at prices ranging from $16.875 to $42.50 per share, the fair market value on the date of grant. Stock options become exercisable one year from the date of grant and expire in ten years. Under the stock option plan, the Company may make loans to officers and key employees for the purpose of financing the exercise of stock options. The minimum interest rate on these loans is 5.6%, which is equal to the ratio of dividends to the average market price of the Company's stock during the twelve month period ended November 30, 1981.

As part of the acquisition of Sav-On-Drugs, Inc., the Company assumed outstanding stock options to purchase Sav-On common stock and converted each stock option into a stock option to purchase a number of shares of Jewel's Series A $2.31 cumulative convertible preferred stock equal to .72 times the number of shares of Sav-On common stock covered by each option. During fiscal 1981, options to purchase 7,200 shares of Series A $2.31 cumulative convertible preferred stock at $12.67 per share were exercised. There are no remaining options outstanding under this stock option plan.

The 3¾% preferred treasury shares were acquired to meet the sinking fund provision of the issue, which require full retirement by 1985. In October 1981, 6,000 shares were retired. Sinking fund requirements are satisfied through 1984.

Under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan, shareholders of record may purchase additional shares of common stock by reinvesting dividends and making optional cash investments without payment of any brokerage commission or service charge.

## Lease Commitments

The Company leases certain of its retail and other locations under firm-term lease arrangements ranging from 5 to 25 years (principally 15 years for retail locations), plus various renewal options. In addition, the Company has an insignificant number of personal property leases (primarily transportation, warehouse handling and data processing equipment) expiring at various dates during the next four years.

As of January 30, 1982 minimum rentals on all non-cancellable leases for real properties under operating leases were as follows:

| (In thousands) | Minimum Payments | Sublease Income | Net |
|---|---|---|---|
| 1982 | $ 45,856 | $ 4,232 | $ 41,624 |
| 1983 | 43,983 | 3,943 | 40,040 |
| 1984 | 40,612 | 3,526 | 37,086 |
| 1985 | 36,812 | 3,171 | 33,641 |
| 1986 | 33,430 | 2,937 | 30,493 |
| Thereafter | 259,869 | 12,114 | 247,755 |
| Total | $460,562 | $ 29,923 | $430,639 |

Rental expense for operating leases for the past three years were as follows:

| (In thousands) | 1981 | 1980 | 1979 |
|---|---|---|---|
| Real estate: | | | |
| Minimum rentals | $44,651 | $36,907 | $29,274 |
| Contingent rentals (based on sales) | 8,519 | 7,355 | 5,737 |
| Sublease income | (4,381) | (4,536) | (4,521) |
| | 48,789 | 39,726 | 30,490 |
| Personal property | 6,840 | 6,121 | 5,632 |
| Total | $55,629 | $45,847 | $36,122 |

## Contingent Liabilities—Litigation

In addition to claims and lawsuits arising in the normal course of the Company's business, as of January 30, 1982, there were various actions pending against the Company for substantial damages, trebled, under antitrust laws.

These include fourteen antitrust actions under federal law filed by certain cattle producers and feeders since 1975 against Jewel and others alleging price fixing in the purchase and sale of beef. Plaintiffs in one of these actions seek to maintain a class action. All of these actions have been consolidated for pre-trial and discovery purposes in the U.S. District Court in Dallas, Texas. In December 1977 the Court dismissed seven of these actions on the basis of the U.S. Supreme Court's decision in the Illinois Brick case that only direct sellers and purchasers could recover damages under federal antitrust laws; plaintiffs filed appeals in six of these seven cases and a suit similar to the seventh was filed in California under state antitrust laws. In August 1979 the U.S. Court of Appeals for the Fifth Circuit reversed the dismissals. In October 1980 the U.S. Supreme Court denied petitions for *certiorari;* the six cases have been returned to the District Court for further evidentiary proceedings and the parties have been ordered to commence discovery.

Although management cannot now predict the outcome of these actions, it believes that the Company has good and meritorious defenses to each action, and that their outcome will not materially affect the Company's financial position.

## Profit Sharing and Retirement Costs

A majority of the Company's employees who meet service requirements are covered by profit sharing plans under which the Company makes annual contributions, determined by a formula related to earnings, to provide retirement benefits. These funds are held in trust apart from Company funds. Retirement benefits are based on each participant's share of the trust funds. There are no unfunded past service liabilities under these plans. The Company also makes payments to multiemployer pension plans as required by collective bargaining agreements covering some employees; under the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPA"), the Company may be or may become subject to liabilities in excess of those payments in the event of the termination of or its withdrawal or partial withdrawal from multiemployer plans, to be determined as a proportional share of the liabilities, if any, of each such plan for unfunded, vested benefits. The amount of this potential liability under MEPPA is not determinable at the present time.

## Business Segments

The Company is a diversified retailer engaged primarily in the retail sale of food, drugs and general merchandise. The Company is engaged in the supermarket business under the Buttrey, Eisner, Jewel and Star trade names and in the drug store business under the Osco Drug and Sav-On-Drugs trade names. Other operations include White Hen Pantry (convenience stores), Brigham's (ice cream, candy and sandwich stores), Mass Feeding Corporation (school lunch programs), Park Corporation (manufacturing operations) and Jewel T (limited-line discount grocery stores).

Operating earnings are total sales less operating expenses. In computing operating earnings, none of the following items have been added or deducted: interest income, interest expense, income taxes, earnings or losses from the discontinued operation and equity in Aurrera, S.A.

Identifiable assets are those assets associated with a particular segment either by direct use or by allocation when used by two or more segments. Unallocated assets include short-term investments and certain land, buildings and equipment.

| (In thousands) | 1981 | 1980 | 1979 |
|---|---|---|---|
| Sales: | | | |
| Supermarkets | $3,146,178 | $3,021,989 | $2,817,944 |
| Drug stores[1] | 1,455,147 | 859,903 | 608,304 |
| Other operations | 506,289 | 386,030 | 258,681 |
| Total | $5,107,614 | $4,267,922 | $3,684,929 |
| Operating Earnings: | | | |
| Supermarkets | $ 61,912 | $ 54,692 | $ 56,440 |
| Drug stores[1] | 58,999 | 31,275 | 21,132 |
| Other operations | 5,337 | 4,455 | 4,640 |
| Unallocated—net[2] | (6,401) | (390) | (2,280) |
| Total | $ 119,847 | $ 90,032 | $ 79,932 |

[1]*Includes Sav-On since its acquisition on November 6, 1980.*
[2]*Unallocated consists principally of general corporate expenses and miscellaneous income.*

| (In thousands) | 1981 | 1980 | 1979 |
|---|---|---|---|
| Identifiable Assets: | | | |
| Supermarkets | $ 646,735 | $ 613,379 | $ 589,610 |
| Drug stores[1] | 484,985 | 438,595 | 200,171 |
| Other operations | 92,213 | 85,200 | 67,657 |
| Investment in Aurrera, S.A. | 67,287 | 75,873 | 58,468 |
| Unallocated | 88,651 | 82,728 | 93,556 |
| Total | $1,379,871 | $1,295,775 | $1,009,462 |
| Capital Expenditures (net): | | | |
| Supermarkets | $ 67,788 | $ 55,274 | $ 53,571 |
| Drug stores[1] | 40,625 | 25,286 | 14,641 |
| Other operations | 10,769 | 9,208 | 13,933 |
| Unallocated | 7,001 | 2,647 | 4,341 |
| Total | $ 126,183 | $ 92,415 | $ 86,486 |
| Depreciation Expense: | | | |
| Supermarkets | $ 43,821 | $ 41,446 | $ 38,516 |
| Drug stores[1] | 16,731 | 9,851 | 7,579 |
| Other operations | 6,424 | 5,381 | 3,957 |
| Unallocated | 5,944 | 5,136 | 5,414 |
| Total | $ 72,920 | $ 61,814 | $ 55,466 |

[1]*Includes Sav-On since its acquisition on November 6, 1980.*

The change to the LIFO method of accounting for inventories in 1980 reduced 1981 and 1980 operating earnings, by segment, as follows:

| (In thousands) | 1981 | 1980 |
|---|---|---|
| Supermarkets | $ 5,772 | $10,678 |
| Drug stores | 12,318 | 9,151 |
| Other operations | 1,103 | 1,713 |
| Total | $19,193 | $21,542 |

## Costs and Expenses

Set forth below is a comparative summary of significant costs and expenses:

| (In thousands) | 1981 | 1980 | 1979 |
|---|---|---|---|
| Depreciation and Amortization— Jewel Companies, Inc.: | | | |
| Buildings | $ 3,103 | $ 1,837 | $ 1,473 |
| Equipment and leasehold improvements | 60,991 | 51,564 | 45,677 |
| Capital leases | 3,033 | 2,916 | 2,975 |
| | 67,127 | 56,317 | 50,125 |
| Real estate affiliates: | | | |
| Buildings | 5,793 | 5,497 | 5,341 |
| Total | $72,920 | $61,814 | $55,466 |

| (In thousands) | 1981 | 1980 | 1979 |
|---|---|---|---|
| Taxes, Other than Payroll and Income: | | | |
| Property | $18,396 | $17,284 | $13,586 |
| Other | 2,626 | 2,151 | 1,613 |
| Total | $21,022 | $19,435 | $15,199 |
| Advertising | $59,861 | $49,635 | $41,514 |
| Retirement Benefit Plans: | | | |
| Profit sharing plans | $22,290 | $19,467 | $14,468 |
| Contingent compensation | 1,668 | 4,043 | 2,254 |
| Industry and other pension plans | 10,706 | 6,352 | 5,364 |
| Total | $34,664 | $29,862 | $22,086 |

## Earnings Per Common Share

Earnings per common share is computed by dividing net earnings, after deducting preferred stock dividend requirements, by the weighted average number of common shares outstanding. Fully diluted net earnings per share assumes conversion of the Series A cumulative convertible preferred stock and the exercise of dilutive outstanding stock options. The Series A preferred dividend requirement is not deducted from net earnings in computing fully diluted net earnings per share.

The computation of primary and fully diluted earnings per share follows:

| (In thousands except per share data) | 1981 | 1980 | 1979 |
|---|---|---|---|
| **Primary Earnings Per Share** | | | |
| Net earnings | $101,670 | $55,210 | $49,963 |
| Less: Preferred dividend requirements for 3¾% cumulative preferred stock and Series A preferred stock | 8,908 | 2,191 | 40 |
| Net earnings applicable to common stock | $ 92,762 | $53,019 | $49,923 |
| Average common shares outstanding | 11,554 | 11,293 | 11,155 |
| Primary earnings per share | $ 8 03 | $ 4.70 | $ 4.48 |
| **Fully Diluted Earnings Per Share** | | | |
| Net earnings | $101,670 | $55,210 | $49,963 |
| Less: Preferred dividend requirements for 3¾% cumulative preferred stock | 10 | 30 | 40 |
| Net earnings applicable to common stock | $101,660 | $55,180 | $49,923 |
| Average common shares outstanding | 11,554 | 11,293 | 11,155 |
| Additional shares outstanding after application of treasury stock method: | | | |
| Stock option plan | 161 | 203 | 197 |
| Employee stock purchase plan | 5 | 4 | 4 |
| Conversion of Series A preferred stock | 2,746 | 642 | — |
| Average common shares outstanding assuming full dilution | 14,466 | 12,142 | 11,356 |
| Fully diluted earnings per share | $ 7.03 | $ 4.54 | $ 4.40 |

## Information on Effects of Changing Prices (Unaudited)

The financial information presented elsewhere in this Annual Report has been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars. It is generally recognized that financial statements prepared under the historical cost basis do not adequately reflect the effects of inflation. In an attempt to measure the effects of inflation, the Financial Accounting Standards Board (FASB) has issued Statement No. 33—Financial Reporting and Changing Prices, requiring certain public companies to include in their annual reports as supplementary information adjusted historical financial information to illustrate the impact of changing prices. Two different methods were prescribed by the FASB for measuring the effects of changing prices.

The first method provides data adjusted for "general inflation" using the Consumer Price Index for all Urban Consumers as the broad-based measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars). This measure of inflation encompasses a wide range of commodities such as food, housing, medical care and energy costs, and assumes consumers continually purchase fixed quantities of the same goods and services regardless of price and alternative substitutes. This Index is not representative of the changing sales mix in the Company's food, drug and other retail businesses and therefore will not necessarily disclose the impact of inflation on such businesses.

The second method of measurement adjusts for "changes in specific prices". The objective of this method is to reflect the current cost of the resources actually used in a company's operations rather than the historical cost amounts actually expended to acquire the resources. Adjustments presented below for changes in specific prices of land, buildings and equipment are based both on internal and external price indexes specifically or closely related to the assets being measured. During 1980, the Company adopted the LIFO method of inventory valuation for approximately 87% of its inventories. Therefore, the effect of the adjustment to inventories and cost of products sold for those inventories not accounted for under the LIFO method is relatively small. For 1979, current prices for inventories and cost of products sold are based on internally generated measurements of price changes.

Statement No. 33 does not permit any adjustments to income tax expense because companies are not permitted for income tax purposes to recognize the effects of inflation. As a result, in the accompanying statement, income taxes must be provided at historical amounts and cannot be adjusted for either the constant dollar or current value restatements even though the adjustments may create inflation-adjusted losses. Consequently, the effective tax rates for both the constant dollar and current value restatements are significantly higher than statutory rates.

The net effect of inflation adjustments to inventory, property and monetary liabilities is an increase in the shareholders' equity of the Company, partially the result of a purchasing power gain on net amounts owed. During a period of inflation, holders of current assets excluding inventories (defined as monetary assets by Statement No. 33) suffer a loss of general purchasing power, while holders of liabilities experience a gain. Since the Company's liabilities at each year end were larger than the current assets excluding inventories, an unrealized gain results. The gain will not be realized, however, until the liabilities are paid in the future with dollars of less purchasing power. Similarly, the increase in shareholders' equity is not available for dividends until the revalued net assets are realized at the inflation-adjusted amounts.

The accompanying supplemental information regarding Jewel's operations should be used with care. Both the constant dollar and current value methods involve the use of assumptions, estimates and subjective judgments and, therefore, the data presented does not have the precision or verifiability of data prepared in accordance with traditional accounting practices. For the same reason, the data may not be comparable

with that presented by other companies, even within the same industry. Management does not believe that the constant dollar restatement of Jewel's financial results properly reflects the effect of inflation on the Company's operations. Further, the restated net assets should not be interpreted as a measure of the current value of the Company's resources.

**Statements of Earnings** (Unaudited)
Adjusted for Effects of Changing Prices

| (In thousands) | 52 Weeks Ended January 30, 1982 As Reported in the Primary Financial Statements | Adjusted for General Inflation | Adjusted for Changes in Specific Prices |
|---|---|---|---|
| Sales | $5,107,614 | $5,107,614 | $5,107,614 |
| Costs of Doing Business: | | | |
| Cost of goods sold | 4,049,623 | 4,068,923 | 4,053,723 |
| Depreciation and amortization | 72,920 | 106,620 | 101,820 |
| Selling, general and administrative expenses | 865,224 | 865,224 | 865,224 |
| | 4,987,767 | 5,040,767 | 5,020,767 |
| Operating Earnings | 119,847 | 66,847 | 86,847 |
| Gain on Sale of Aurrera Stock | 27,285 | 27,285 | 27,285 |
| Net Interest Expense | (35,644) | (35,644) | (35,644) |
| Earnings of U.S. Companies From Continuing Operations Before Income Taxes | 111,488 | 58,488 | 78,488 |
| Income Taxes | 41,772 | 41,772 | 41,772 |
| Earnings of U.S. Companies From Continuing Operations | 69,716 | 16,716 | 36,716 |
| Equity in Net Earnings of Aurrera, S.A. | 31,954 | 31,954 | 31,954 |
| Earnings From Continuing Operations | $ 101,670 | $ 48,670 | $ 68,670 |
| Purchasing Power Gain From Holding Net Monetary Liabilities During the Year | | $ 59,000 | $ 59,000 |
| Increase in General Price Level of Inventories and Net Land, Buildings and Equipment Held During the Year | | | $ 124,000 |
| Effect of Increase in Specific Prices[1] | | | 105,000 |
| Excess of Increase in the General Price Level Over Increase in Specific Prices | | | $ 19,000 |

[1]*At January 30, 1982 current cost of inventory was $499,000 and current cost of land, buildings and equipment net of accumulated depreciation was $1,044,000.*

**Five Year Comparison of Selected Financial Data** (Unaudited)
Adjusted for Effects of Changing Prices

| (In thousands except per share data) | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| Sales (includes Sav-On since 11/6/80 and Turn*Style prior to June 1978): | | | | | |
| As reported | $5,107,614 | $4,267,922 | $3,684,929 | $3,434,113 | $3,195,146 |
| Adjusted for general inflation | 5,107,614 | 4,697,970 | 4,592,762 | 4,782,294 | 4,800,597 |
| Earnings (Loss) from Continuing Operations: | | | | | |
| As reported | $101,670 | $63,864 | $48,590 | | |
| Adjusted for general inflation | 48,670 | 7,556 | (16,714) | | |
| Adjusted for specific price changes | 68,670 | 32,872 | 735 | | |
| Primary Earnings (Loss) Per Share from Continuing Operations: | | | | | |
| As reported | $8 03 | $5.46 | $4.36 | | |
| Adjusted for general inflation | 3.44 | .48 | (1.49) | | |
| Adjusted for specific price changes | 5.17 | 2.72 | .06 | | |
| Purchasing Power Gain from Holding Net Monetary Liabilities During the Year | $59,000 | $76,000 | $88,000 | | |
| Net Assets at Year End: | | | | | |
| As reported | $555,750 | $504,530 | $371,842 | | |
| Adjusted for general inflation | 919,000 | 884,000 | 799,000 | | |
| Adjusted for specific price changes | 913,000 | 882,000 | 804,000 | | |
| Cash Dividends Declared Per Common Share: | | | | | |
| As reported | $2.24 | $1.92 | $1.68 | $1.41 | $1.30 |
| Adjusted for general inflation | 2.24 | 2.11 | 2.09 | 1.96 | 1.95 |
| Market Price Per Common Share at Year End: | | | | | |
| Historical amount | $33.63 | $35.50 | $28.63 | $20.13 | $18.63 |
| Adjusted for general inflation | 32.64 | 37.37 | 33.66 | 26 96 | 27.28 |
| Average Consumer Price Index (1967 = 100.0) | 274.2 | 249.1 | 220.0 | 196.9 | 182.5 |

**Quarterly Data** (Unaudited)

The following quarterly data for 1981 and 1980 has been restated for the change in the method of accounting for compensated absences. The quarterly data for 1981 has also been restated for the change in accounting for foreign currency translations.

| (In thousands except per share data) | Quarter First (12 Weeks) | Second (16 Weeks) | Third (12 Weeks) | Fourth (12 Weeks) | Total Year |
|---|---|---|---|---|---|
| **1981** | | | | | |
| Sales | $1,124,110 | $1,522,645 | $1,146,717 | $1,314,142 | $5,107,614 |
| Gross profit | 222,815 | 308,419 | 231,914 | 276,613 | 1,039,761 |
| Net earnings | 14,276 | 39,447 | 13,770 | 34,177 | 101,670 |
| Primary earnings per share | $ 1.05 | $ 3.19 | $ 1.02 | $ 2.77 | $ 8.03 |
| Fully diluted earnings per share | $ .99 | $ 2.72 | $ .95 | $ 2.37 | $ 7.03 |
| Dividends declared per common share | $ .56 | $ 56 | $ .56 | $ .56 | $ 2 24 |
| Common stock price (Composite tape): | | | | | |
| High | $ 44 | $ 45¼ | $ 38¼ | $ 38 | $ 45¼ |
| Low | $ 35 | $ 32 | $ 31⅞ | $ 32 | $ 31⅞ |
| **1980** | | | | | |
| Sales | $ 884,907 | $1,212,510 | $ 951,726 | $1,218,779 | $4,267,922 |
| Gross profit | 171,624 | 229,525 | 182,980 | 247,955 | 832,084 |
| Earnings: | | | | | |
| Continuing operations | 9,208 | 14,244 | 11,334 | 29,078 | 63,864 |
| Discontinued operation | (390) | (926) | (591) | (6,747) | (8,654) |
| Total | $ 8,818 | $ 13,318 | $ 10,743 | $ 22,331 | $ 55,210 |
| Primary earnings per share: | | | | | |
| Continuing operations | $ .82 | $ 1.27 | $ 1.00 | $ 2 37 | $ 5 46 |
| Discontinued operation | (.03) | (.09) | ( 05) | (.59) | (.76) |
| Total | $ .79 | $ 1.18 | $ .95 | $ 1.78 | $ 4.70 |
| Fully diluted earnings per share: | | | | | |
| Continuing operations | $ .81 | $ 1.24 | $ .98 | $ 2.03 | $ 5.25 |
| Discontinued operation | (.03) | (.08) | (.05) | (.47) | (.71) |
| Total | $ .78 | $ 1.16 | $ .93 | $ 1.56 | $ 4.54 |
| Dividends declared per common share | $ .48 | $ .48 | $ .48 | $ .48 | $ 1.92 |
| Common stock price (Composite tape): | | | | | |
| High | $ 28⅞ | $ 32¾ | $ 34 | $ 36¼ | $ 36¼ |
| Low | $ 22⅛ | $ 24⅜ | $ 29⅜ | $ 28½ | $ 22⅛ |

## Condensed Financial Statements—Aurrera, S.A.

(Unaudited)

The Company had a 36.1% and 41.7% investment in Aurrera, S.A. as of January 30, 1982 and January 31, 1981, respectively, that was accounted for by the equity method. The fiscal year of Aurrera, S.A. ends on July 31 whereas the Company's fifty-two week fiscal year ends on or about January 31. However, the Company determines its equity in the net earnings of Aurrera, S.A. based on financial statements of Aurrera, S.A. at December 31. The financial statements of Aurrera, S.A. at December 31, 1981, 1980 and 1979 are based upon audited financial statements examined by a major international public accounting firm as of July 31, 1981, 1980 and 1979, the end of Aurrera's fiscal year, and unaudited financial statements for the periods from August 1 to December 31. Following is a condensed summary of Aurrera's financial statements:

**Statements of Financial Position**

| (In thousands) | December 31, 1981 | December 31, 1980 |
|---|---|---|
| Aurrera (in Pesos) | | |
| Current and other assets | Ps. 8,346,914 | Ps. 5,996,979 |
| Properties, net[1] | 7,508,862 | 5,427,881 |
| Total assets | 15,855,776 | 11,424,860 |
| Current liabilities | 7,842,296 | 5,753,906 |
| Long-term debt | 89,288 | 123,053 |
| Net assets per Aurrera statements[1] | Ps. 7,924,192 | Ps. 5,547,901 |
| U.S. translation[2] | $ 301,912 | $ 273.895 |
| Reconciliation to Jewel's Investment[2] | | |
| Equity in net assets per Aurrera statements | $ 109,101 | $ 114,193 |
| Adjustments to conform with U.S. generally accepted accounting practices: | | |
| Cumulative income adjustments | 7,400 | 3,962 |
| Reorganization/revaluation adjustments not recognized by Jewel[1] | (60,092) | (54,832) |
| Excess of cost over acquired net assets | 10,878 | 12,550 |
| Carrying value of investment | $ 67,287 | $ 75,873 |

**Statements of Earnings**

| (In thousands) | Year Ended December 31, 1981 | 1980 | 1979 |
|---|---|---|---|
| Aurrera (in Pesos) | | | |
| Sales | Ps. 33,830,234 | Ps. 22,645,672 | Ps. 15,407,889 |
| Earnings before statutory profit sharing and income taxes | 3,464,165 | 2,449,430 | 1,608,905 |
| Statutory profit sharing | (198,610) | (144,431) | (114,351) |
| Income taxes | (1,255,503) | (882,295) | (604,948) |
| Net earnings per Aurrera statements[1] | Ps. 2,010,052 | Ps. 1,422,704 | Ps. 889,606 |
| U.S. translation[2] | $ 81,235 | $ 60,165 | $ 37,357 |
| Reconciliation to Jewel's Equity in Net Earnings[2] | | | |
| Equity in net earnings per Aurrera statements | $ 30,987 | $ 25,084 | $ 15,575 |
| Adjustments to conform with U.S. generally accepted accounting practices[1] | 3,966 | 2,053 | 703 |
| Dividend withholding tax provided | (2,999) | (2,721) | (1,735) |
| Equity in net earnings of Aurrera, S.A. | $ 31,954 | $ 24,416 | $ 14,543 |

[1]*Includes effects of revaluation of properties to recognize inflation.*
[2]*The results for the 1981 fiscal year are reported in accordance with FASB Statement No. 52. The results for 1980 and 1979 are reported in accordance with FASB Statement No. 8*

**Five Year Summary of Selected Financial Data**[1]

| (In thousands except per share data) | 1981[2] | 1980 | 1979 | 1978[3] | 1977 |
|---|---|---|---|---|---|
| **Operating Results** | | | | | |
| Sales | $5,107,614 | $4,267,922 | $3,684,929 | $3,434,113 | $3,195,146 |
| Earnings of U.S. companies from continuing operations | $ 69,716 | $ 39,448 | $ 34,047 | $ 31,479 | $ 20,450 |
| Equity in net earnings of Aurrera | 31,954 | 24,416 | 14,543 | 8,476 | 4,889 |
| Earnings from continuing operations | 101,670 | 63,864 | 48,590 | 39,955 | 25,339 |
| Discontinued operation | — | (8,654) | 1,373 | 567 | 684 |
| Net earnings | $ 101,670 | $ 55,210 | $ 49,963 | $ 40,522 | $ 26,023 |
| U.S. earnings from continuing operations as a percent of sales | 1.02%[4] | .92% | .92% | .92% | .64% |
| Earnings from continuing operations as a percent of shareholders' average equity | 16.1%[4] | 15.2% | 13.7% | 12.0% | 7.9% |
| **Per Share Results** | | | | | |
| Primary earnings per common share: | | | | | |
| Earnings from continuing operations | $ 8.03 | $ 5.46 | $ 4.36 | $ 3.49 | $ 2.18 |
| Discontinued operation | — | (.76) | .12 | .05 | .06 |
| Net earnings | $ 8.03 | $ 4.70 | $ 4.48 | $ 3.54 | $ 2.24 |
| Fully diluted earnings per share: | | | | | |
| Earnings from continuing operations | $ 7.03 | $ 5.25 | $ 4.28 | $ 3.48 | $ 2.17 |
| Discontinued operation | — | (.71) | .12 | .05 | .06 |
| Net earnings | $ 7.03 | $ 4.54 | $ 4.40 | $ 3.53 | $ 2.23 |
| Dividends declared per common share | $ 2.24 | $ 1.92 | $ 1.68 | $ 1.405 | $ 1.30 |
| Percent of net earnings | 34%[4] | 41% | 38% | 40% | 58% |
| Equity per common share | $ 39.35 | $ 35.70 | $ 33.17 | $ 30.41 | $ 28.20 |
| **Financial Position** | | | | | |
| Working capital | $ 147,526 | $ 162,050 | $ 115,210 | $ 98,337 | $ 102,642 |
| Total assets | 1,379,871 | 1,295,775 | 1,009,462 | 956,101 | 911,997 |
| Long-term debt, less current maturities: | | | | | |
| Jewel Companies, Inc. | 215,696 | 230,525 | 159,624 | 142,195 | 147,636 |
| Real estate affiliates | 120,778 | 118,661 | 123,450 | 126,357 | 126,511 |
| Common shareholders' equity | 459,542 | 407,417 | 370,973 | 338,509 | 327,164 |
| **Other Statistical Data** | | | | | |
| Employees (full-time equivalents) | 36.9 | 37.2 | 31.4 | 31.2 | 32.8 |
| Square footage of retail stores: | | | | | |
| Supermarkets | 10,421 | 10,255 | 10,562 | 10,523 | 10,500 |
| Drug stores | 9,468 | 9,039 | 4,644 | 4,582 | 6,627 |
| Other operations | 2,507 | 2,288 | 2,014 | 1,068 | 898 |
| Total at year end | 22,396 | 21,582 | 17,220 | 16,173 | 18,025 |

[1] In 1980, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for approximately 87% of its inventories. Earnings from continuing operations on a FIFO basis for 1981 and 1980, presented as supplementary information in order to provide a basis for comparison with prior years and with companies using the FIFO method, would have been greater than reported earnings from continuing operations by $9,609 ($ 83 per share) and $10,792 ($.96 per share), respectively. 1979 and prior years were reported on the FIFO basis.
[2] Includes $17,650 or $1.53 per share ($1.22 fully diluted) gain on the sale of Aurrera stock.
[3] 53-week year, other years 52 weeks.
[4] Excludes gain on sale of Aurrera stock

## Board of Directors

Raymond C. Baumhart, S.J.[1,2]
President, Loyola University of Chicago

Karl D. Bays[4]
Chairman and Chief Executive Officer
American Hospital Supply Corporation
(Health Products and Services)

Robert L. Call
Chairman
Sav-On-Drugs, Inc.

Silas S. Cathcart[2,3,4]
Chairman, Illinois Tool Works, Inc.
(Fasteners, Tools, Electronic Components & Plastic Packaging Products)

Weston R. Christopherson[3]
Chairman of the Board and Chief Executive Officer

Richard G. Cline[3]
President and Chief Operating Officer

Stephen M. DuBrul, Jr.[1]
Consultant and Private Banker

Lawrence E. Fouraker[1,2]
Professor of Business Administration
Harvard Business School

Louis V. Gerstner, Jr.[1]
Vice Chairman
American Express Company

Lawrence Howe[3]
Vice Chairman

Richard B. Ogilvie[3,4]
Partner, Isham, Lincoln & Beale (Attorneys)

James E. Olson[2,4]
Vice Chairman
American Telephone and Telegraph Company

Donald S. Perkins[3]
Chairman of the Executive Committee

Barbara Scott Preiskel[1]
Senior Vice President and General Attorney
Motion Picture Association of America, Inc

[1]Audit Committee
[2]Nominating Committee
[3]Executive Committee
[4]Salaries and Employee Benefits Committee

## Corporate Officers

Weston R. Christopherson
Chairman of the Board and Chief Executive Officer

Richard G. Cline
President and Chief Operating Officer

Lawrence Howe
Vice Chairman

Donald S. Perkins
Chairman of the Executive Committee

Robert P. Dorsher
Senior Vice President

Clifford R. Johnson
Senior Vice President

Gene B. Kilham
Senior Vice President

Stephen C. Adams
Vice President, Information Systems

John N. Balch
Vice President and Treasurer

John L. Benner
Vice President and Controller

Robert F. Berrey
Vice President, General Counsel and Secretary

Ronald J. Floto
Vice President, Strategic Planning and Business Development

Thomas F. Harwood
Vice President, Manufacturing

Robert D. Jones
Vice President, Public Affairs

Bruce L. Margolis
Vice President, Human Resources

Charles E. McClellan
Vice President, Taxes

Thomas M. Nielsen
Vice President, Compensation and Benefits

Jacob J. Schnur
Vice President and Chief Real Estate Counsel

## 1981 Management Changes

| | | Age | Years with Jewel | Company |
|---|---|---|---|---|
| In fiscal 1981, the following people became company vice presidents: | Frank O. Eckstein | 35 | 17 | Jewel Food Stores |
| | Forrest L. Haney | 32 | 11 | Jewel T Discount Grocery |
| | Francis G. LaVerde | 42 | 17 | Star Market |
| | Henry J. Nasella | 35 | 17 | Star Market |
| | Francis J. Raucci | 45 | 8 | Buttrey |
| | Thomas A. Vaci | 48 | 22 | Jewel Food Stores |
| | Charles R. Weber | 31 | 10 | Osco Drug |
| Three became company presidents: | K. Lee Guse | 38 | 15 | Mass Feeding Corp. |
| | W. Bruce Krueger | 49 | 23 | Star Market |
| | Samuel J. Parker | 39 | 12 | Sav-On-Drugs |
| | | | | Position |
| And several were elected to Jewel corporate offices: | Stephen C. Adams | 34 | 10 | Vice President, Information Systems |
| | John L. Benner | 40 | 9 | Vice President and Controller |
| | Robert P. Dorsher | 54 | 28 | Senior Vice President |
| | Ronald J. Floto | 39 | 8 | Vice President, Strategic Planning & Business Development |
| | Thomas F. Harwood | 44 | 17 | Vice President, Manufacturing |
| | Clifford R. Johnson | 58 | 32 | Senior Vice President |
| | Gene B. Kilham | 44 | 10 | Senior Vice President |
| | Thomas M. Nielsen | 38 | 11 | Vice President, Compensation and Benefits |

**Jewel Companies and Presidents**

Buttrey Food Stores
601 Sixth Street, S.W.
Great Falls, Montana 59403
*Philip R. Palm*

Eisner Food & Agency Stores
301 East Wilbur Heights Road
Champaign, Illinois 61820
David L. Diana

Jewel Food Stores
1955 West North Avenue
Melrose Park, Illinois 60160
James H. Henson

Jewel T Discount Grocery
Jewel Park
Barrington, Illinois 60010
Ronald D. Peterson

Mass Feeding Corporation
1699 East Woodfield Road
Schaumburg, Illinois 60193
K. Lee Guse

Osco Drug, Inc.
1818 Swift Drive
Oakbrook, Illinois 60521
Richard E. George

The Park Corporation
511 Lake Zurich Road
Barrington, Illinois 60010
Herman T. Landon

Sav-On-Drugs, Inc.
1500 S. Anaheim Blvd.
Anaheim, California 92805
Samuel J. Parker

Star Market Company
625 Mt. Auburn Street
Cambridge, Massachusetts 02138
W. Bruce Krueger

White Hen Pantry
666 Industrial Drive
Elmhurst, Illinois 60126
Robert G. Robertson

345

Jewel Companies, Inc.

O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631